

HUD MANAGEMENT ISSUES

Y 4. B 22/3: S. HRG. 103-147

HUD Management Issues, S. Hrg. 103-1...

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE REPORTS OF WASTE, FRAUD, ABUSE, HINDERED BY OUTDATED IN-
ADEQUATE MANAGEMENT SYSTEMS AND INTERNAL CONTROLS AND
EFFORTS TO STREAMLINE THE PROCESS TO "REINVENT HUD"

MAY 4, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



OCT 13 1993

U.S. GOVERNMENT PRINTING OFFICE

71-184 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-041324-9

HUD MANAGEMENT ISSUES

Y 4. B 22/3: S. HRG. 103-147

HUD Management Issues, S.Hrg. 103-1...

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE REPORTS OF WASTE, FRAUD, ABUSE, HINDERED BY OUTDATED IN-
ADEQUATE MANAGEMENT SYSTEMS AND INTERNAL CONTROLS AND
EFFORTS TO STREAMLINE THE PROCESS TO "REINVENT HUD"

MAY 4, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



OCT 13 1993

U.S. GOVERNMENT PRINTING OFFICE

71-184 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-041324-9

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DONALD W. RIEGLE, JR., Michigan, *Chairman*

PAUL S. SARBANES, Maryland

CHRISTOPHER J. DODD, Connecticut

JIM SASSER, Tennessee

RICHARD C. SHELBY, Alabama

JOHN F. KERRY, Massachusetts

RICHARD H. BRYAN, Nevada

BARBARA BOXER, California

BEN NIGHTHORSE CAMPBELL, Colorado

CAROL MOSELEY-BRAUN, Illinois

PATTY MURRAY, Washington

ALFONSE M. D'AMATO, New York

PHIL GRAMM, Texas

CHRISTOPHER S. BOND, Missouri

CONNIE MACK, Florida

LAUCH FAIRCLOTH, North Carolina

ROBERT F. BENNETT, Utah

WILLIAM V. ROTH, JR., Delaware

PETE V. DOMENICI, New Mexico

STEVEN B. HARRIS, *Staff Director and Chief Counsel*

HOWARD A. MENELL, *Republican Staff Director*

PAUL WEECH, *Staff Director/Subcommittee on
Housing and Urban Affairs*

JEANNINE S. JACOKES, *Professional Staff Member*

KEVIN G. CHAVERS, *Counsel*

JONATHAN D. KAMARCK, *Republican Staff Director/Subcommittee on
Housing and Urban Affairs*

FALLIE E. BOLEN, *Professional Staff Member*

EDWARD M. MALAN, *Editor*

CONTENTS

TUESDAY, MAY 4, 1993

	Page
Opening statement of Chairman Riegle	1
Opening statements, comments, or prepared statements of:	
Senator Gramm	3
Senator Kerry	4
Senator Sarbanes	7
Senator Bryan	10
Prepared statement	41
Senator Faircloth	23
Senator Sasser	26
Senator Domenici	27
Senator D'Amato	41

WITNESSES

Henry Cisneros, Secretary, Housing and Urban Development, Washington, DC; accompanied by: Michael Hill, Acting Assistant Secretary for Administration, and Terrence Duvernay, Deputy Secretary	11
Prepared statement	43
Introduction	44
Deficiencies in resource management	44
Resource management actions	44
Deficiencies in data systems	46
Data systems actions	46
Internal controls actions	47
Conclusion	48
Response to written questions of:	
Senator Bond	66
Senator Sarbanes	73
Senator D'Amato	84
John Connors, Acting Inspector General, Housing and Urban Development, Washington, DC; accompanied by: Chris Greer	33
Prepared statement	48
Systemic problems	50
Data systems	50
Resource management	51
Control environment	52
Programmatic problems	52
Multifamily housing loan servicing	53
Asset management and property disposition	53
CDBG program	54
Public housing agencies	55
GNMA contract management	56
Section 8 budgeting and accounting	57
Implementation of new programs	57
Response to written questions of:	
Senator Bond	59
Senator D'Amato	62
Senator Sarbanes	63

HUD MANAGEMENT ISSUES

TUESDAY, MAY 4, 1993

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:10 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The committee will come to order. Let me welcome all those in attendance this morning.

Before we begin the formal part of this hearing, I want to note for the record that the committee will be voting today on favorably reporting the nominations of Kenneth Brody, to be president of the Export-Import Bank, and Roberta Achtenberg and Nicolas Retsinas, to be assistant secretaries of housing and urban development.

The period of voting will begin now and it will extend until 2:30 today. If a quorum of members arrives during that period of time to cast their notes, the nominations will be reported to the full Senate later today. And I want to be recorded in the affirmative for all three. Senator Kerry, should we record you as well? And we will record other members as they arrive.

Let me now make an observation on a current news item before going directly to our hearing today. There is a story out this morning on the Associated Press wire to the effect that the leading indicators have taken a turn for the worse. The headline on the AP story on the wire is "Leading Index Plunges One Percent in March; Worst Since Recession." And I'm just going to read a little bit of it. It's by Dave Skidmore, the AP writer.

The Government's chief economic forecasting gauge plunged 1 percent in March, the worst decline since the middle of the recession more than 2 years ago, the Commerce Department said today. The drop, slightly steeper than predicted by analysts, was a sign of the dramatic slowdown that has gripped the economy this year, compared with the brief period of robust growth late last year. And then it goes on in that vein, but it strikes an ominous tone. It goes on to quote an economist from Norwest Corp., who says:

The economy is kind of scraping the bottom right now, he said. The fundamental problem is the economy isn't creating enough jobs to support the kind of spending necessary to have even moderate economic growth.

And then there is another economist, a Mr. Lawrence Meyer, based in St. Louis, who is cited, who says that we're in a very sub-

dued economy. There's nothing very buoyant going on, and so forth in that vein.

I think it underscores the point that we need to take additional steps to put some lift into this economy. I think the President was quite right with his job stimulus program. It was modest at \$16.3 billion, even more so when he, in a gesture toward the Republicans in the Senate, reduced it to \$12 billion.

It should be noted for the record that the Japanese this year have just announced a stimulus program of \$114 billion and last year, had a stimulus program in excess of \$90 billion. So they have found a way to, because their unemployment rate is all the way up to 2¼ percent, Senator Kerry, they've decided to stimulate their economy. And clearly, we need to do that here.

And so, I want to again associate myself with the President and with you, Mr. Secretary, because you had a very important component in that jobs stimulus program, the CDBG money, which could be moving out there to help communities take on needed projects that are ready to go and provide jobs and income in the economy.

Clearly, a new effort is needed. And I think this latest data on the economic indicators underscores the urgency of us doing something to give this economy a shot in the arm to get it moving at a faster rate.

Let me now leave that issue and make an opening statement with the purpose of our hearing this morning, and then I'll call on members who may wish to make opening statements or other comments.

Today, the committee will review the ongoing management problems at the U.S. Department of Housing and Urban Development. It was 3 years ago that the Banking Committee passed the HUD Reform Act of 1989, to curb some of the most serious abuses that had been brought to our attention. The committee also, as part of the efforts of a special subcommittee, identified and urged the Bush administration to address serious problems with staffing shortages, poor financial controls, and nonexistent or poorly designed data systems. These deficiencies were found to create the conditions that left some of the department programs open to fraud and abuse, and we saw patterns of that in those areas.

Today, we find that while the past administration implemented the congressionally mandated safeguards against fraud and abuse, it did little to address the long-term management problems.

Late last year, in their 28th semiannual report to the Congress, the HUD Inspector General's Office warned "another HUD scandal is a distinct possibility, unless the Department has sufficient resources to carry out its formidable mandate."

And earlier this year, a Presidential transition report stated that:

Systemic failure of HUD's management systems undercuts the effective implementation of myriad programs throughout the department. It threatens the provision of vital services to millions of very low- and middle-income Americans and it opens the door to the systemic plunder of many millions of taxpayer dollars.

Now the warnings of the Inspector General and the Presidential transition report are particularly alarming when put into the context that HUD oversees \$1 trillion in obligations, including \$140 billion in outstanding, multiyear section 8 and public housing contracts, \$378 billion in Federal Housing Administration insurance

guarantees, \$12 billion in property owned, \$7½ billion in HUD-held loans that HUD services, \$450 billion in outstanding Government National Mortgage Association-insured mortgage pools, and more than \$25 billion in new annual budget authority.

I will say that shortly after his appointment as Secretary of the Department of Housing and Urban Development, Secretary Cisneros embarked upon a bold new plan to, in effect, reinvent HUD. As part of this process, the Secretary is conducting a top-to-bottom review of the Department and its programs and operating responsibilities.

We very much look forward today to hearing the Secretary's findings of his review and to have him detail for us his plan of action for the future. Secretary Cisneros will be followed by John Connors, the Deputy Inspector General of the Department of Housing and Urban Development, who last year authored the message to the Congress that, as I say, warned "that another HUD scandal is a distinct possibility." So, with that, let me call on members back and forth across the aisle. Senator Gramm, let me call on you first, and then we'll go back and forth.

OPENING COMMENTS BY SENATOR PHIL GRAMM

Senator GRAMM. Mr. Chairman, let me be brief.

We are going to have a series of votes this morning. When Ms. Achtenberg was before this committee, I had another committee hearing. I was not here. I submitted a question to her about the alleged vendetta that she has conducted against the Boy Scouts.

I received a response from her which, basically, is just a response outlining what the city commission did in relationship to the Boy Scouts in the dispute. I don't consider this to be a sufficient response.

I would be happier if we could delay the vote until I have received a complete response. In the absence of getting one, and it's up to the Chairman and, obviously, I don't want to inconvenience the whole committee, then I would have to vote against her today. But I would still, I'm going to request again that I get a complete response.

I take the Boy Scouts seriously. I was a Boy Scout. Its national headquarters is domiciled in my State. It's a great organization.

And so, I'm going to ask her again for a response to these allegations, and if a satisfactory response is not given, then if we do vote today, I would vote against her in committee. But I would certainly reconsider what my vote might be on the floor if I get the answer to my question.

The CHAIRMAN. Well, let me do this. I would like to proceed today, and I appreciate the way in which the Senator has presented the options there.

Let us contact her today. This is the first I've known of the fact that the response that you've gotten you think doesn't go far enough. Let us see if we can't get that augmented and clarified in whatever way needs to be done.

I'd like to proceed, and perhaps on the basis of the understanding that you've said, you may want to vote one way today and, depending upon a more complete discussion of the subject, you may very well vote a different way on the floor.

Senator GRAMM. Well, I appreciate that Chairman. Thank you.

The CHAIRMAN. Does the Senator want to make any other opening comment with respect to this hearing?

Senator GRAMM. No.

The CHAIRMAN. Senator Kerry.

OPENING COMMENTS BY SENATOR JOHN F. KERRY

Senator KERRY. Mr. Chairman, I do have some opening comments, and I appreciate the recognition.

First of all, thank you for doing this hearing. I think we've been having a series of hearings that underscore the role of oversight of the Congress and I think it's an extremely important one.

I welcome the Secretary here. I commiserate with him to a degree because the subject today is a tough one. He has really inherited an extraordinary problem. That's really what I want to take a moment just to outline, if I can.

When Secretary Kemp came in and took over from Sam Pierce, I think most of us would acknowledge that waste and fraud and abuse were really synonymous with HUD at that point in time. And in fact, top HUD officials wound up being indicted for the issuance of contracts to politically connected people.

At that time, Secretary Kemp promised really to overhaul HUD. Four years later, we're here to review where HUD is. And I hate to say it because I'm an enormous fan of Secretary Kemp's and I've enjoyed a good relationship with him. But while overt criminal activity has certainly been eliminated, we really witness as we evaluate the agency today, just a failure to institute a broad set of reforms that would have rectified many of the problems that we understood existed four years ago.

And as we come here today grappling with this whole question of how we're going to find money to do any numbers of things, how we're going to create a new link of credibility between ourselves and the citizenry that are increasingly skeptical about the Government's ability to do things, here we have an agency managing billions of dollars of assets and it ain't doing it well up to this point in time.

As the comptroller general has found, as the General Accounting Office has found, as HUD's own inspector general has found, and he will testify later, HUD today is an accountant's nightmare, and there is no other way to describe it—mismanagement, waste, fraud, and abuse permeate the handling of literally \$1 trillion worth of housing programs.

What frightens me, not just the waste of money, but it is harder than hell to get Americans to support good programs, needed programs, and many of these are, when all they see are tales of woe flowing out of the administrative process.

I don't want to take too long. We're here to hear testimony. But I want to frame it a little bit. We've got problems that start with HUD's data systems that fail even to keep track of HUD's major programs, including some \$378 billion in HUD insurance, \$12 billion in HUD-owned property, and billions in long-term housing subsidies.

Then you have a problem that continues with the management of assets that are now owned by HUD as a result of the insured

property that become delinquent. Then it winds up in the hands of the Government, but it becomes a never-ending burden on the taxpayers. It's not disposed of.

On top of that, beginning in the Reagan years and continuing through the Bush administration, HUD cut its staff by 10 percent. Now that sounds terrific. Everybody can run around and beat their chest and go out on the campaign trail and say, by God, we're cutting staff. Isn't it wonderful? We're saving you dollars. But, folks, sorry, the joke's on you. We're not saving you dollars because HUD saved a few bucks on the civil service salaries, but it immediately turned around and it spent the money, and more, by hiring private sector personnel to carry out the work that the Government personnel had done previously and that private sector personnel did it at a much higher rate.

Now my friends on the other side of the aisle, who are conspicuously absent at this moment, are the first to go to the floor of the Senate and the first to scream about bad spending practices, and here is an example of the last 12 years of an extraordinary case of mismanagement and waste.

Then you have the recent GAO study that shows that at the end of this last administration, HUD is unable to determine whether it is spending its money in accordance with the law, pretty fundamental. Can't develop accurate budget requests. This is a burden that the Secretary now comes in to undertake. Doesn't have an accurate and reliable information capacity to make decisions. And it can't even evaluate whether its programs are working or not.

I have to tell you, I think you can label that in any number of ways, but it is deeply, deeply troubling that this multi-billion-dollar agency with such enormous responsibilities is in that state now. And public housing conditions, we all know, are deteriorating. They cost the taxpayers ever more money. And partly as a result of mismanagement and waste and fraud within the Department, we lose the consensus that permits these programs to go forward.

HUD's inventories of delinquent property are continuing to grow. And HUD holds those properties year after year. No strategy to sell them. The costs bleed funds we can't afford to waste. Apparently, we now hold some 48,000 separate units of multifamily property with neither a strategy for selling the property, nor a strategy to prevent more defaults.

Now, Mr. Chairman, on top of that, HUD has property that it's inherited from the coinsurance program, which was initiated under President Reagan, in which HUD coinsured loans with private insurers. But the private insurers walked away, leaving the Government holding some \$3 billion worth of defaulted loans out of a total of \$10 billion, with several billions more in defaulted loans now anticipated.

Then you have the section 8 sort of Catch-22, which Congress can share some blame for, but which was proposed by the administration and Congress went along. And this is the concept where low income property—supposedly, we were going to incent the creation of new property by saying, you can't get rid of it. It's got to go into section 8.

The problem is nobody ever appropriated the money for the section 8. So there's your Catch-22. You're sort of locked into this po-

sition where the law requires something to happen that the Congress and the administration never permitted to happen, so nothing happens and you wind up with waste.

Mr. Chairman, you really can't come to any conclusion but that the last 4 years have been good on rhetoric and frankly, short on performance in terms of real reform and real change within the Department. And it's apparent now that people were not willing to tell the Congress the real story. They weren't willing to tell President Bush the real story. They were unwilling to ask for the staff needed to get the job done. And they really didn't face up to the problems that were accelerated under Sam Pierce.

So, if I could just share with the Chairman very quickly, and I apologize for taking a while here, but I don't think the scope of this problem is understood publicly. I know it's not understood here in Congress.

It seems to me at a point where we're looking for billions of dollars, there are literally certainly hundreds of millions, and perhaps—no, there are billions. There are billions of dollars available in terms of our Federal Treasury by taking the appropriate action within HUD in these next months.

Now HUD recently provided my office with a compendium of the multifamily inventory that today is held by HUD. It consists of delinquent mortgages that the Government has never foreclosed on, current mortgages held by the Government as a result of an earlier default, projects with Government insurance now under work-out, and projects in foreclosure.

Now, to my shock, a good many of these programs may have come into the possession of the Government in the last 4 years, but astoundingly, many of these programs, many of these properties have been held by HUD for as long as 10 years, some for as long as 20 years, and a few for as long as 25 years or more.

Just a couple of quick examples.

In Boston, HUD holds a \$3.2 million mortgage on 202 units on a property assigned to HUD on June 18, 1976, under the Ford administration when Carla Hills was Secretary of HUD. The mortgage is delinquent. Over the past 15 years, HUD has never foreclosed on the property.

In Hartford, Connecticut, there's the Tusan Homes property. HUD has a \$2 million mortgage. Assigned April 5, 1973, when Richard Nixon was President. At the time, James Lynn was Secretary of HUD. The mortgage is delinquent. Twenty years have passed. There's been no foreclosure by the Government.

In Chicago, you've got the Lake Grove Village, \$9.4 million mortgage. Assigned to HUD July 1, 1977. Patricia Harris was Secretary under President Carter. No action taken for foreclosure.

In Los Angeles, the Hollywood Ardmore, \$5.7 million mortgage, January 19, 1967, it was assigned, when Lyndon Johnson was President. Robert Weaver, Secretary of HUD.

In the quarter of a century since the assignment, the Government hasn't foreclosed and the Government is not being paid, nor repaid, and the property doesn't go back on the rolls. The taxpayers are carrying the costs of holding the delinquent multifamily housing decade after decade.

So, Mr. Chairman, we have a major task ahead of us in this committee. Secretary Cisneros and all of his aides have an extraordinary task ahead of them at HUD. We're going to have to work diligently to try to put this property back in the market place to begin to reap the proceeds from the rents that are now going to owners that aren't paying the Government.

It's a win-win situation for them. They can get into this insured situation. The Government is going to take over if they don't perform. In many cases, they don't perform, but they continue to collect the rent and nothing happens.

It's a disgrace. It's a scandal. And so, I could go on. I will not go on. I just think that this committee, together with Secretary Cisneros, has an enormous task to undertake. But I think it is very important that people understand what Secretary Cisneros is coming into, what he is finding, what exists over there that is such an extraordinary departure from the rhetoric of the past years.

It is bad Government management. It is bad private management. It's bad private-sector/public-sector interrelationship. And the American taxpayer has ever reason in the world to ask what the hell is going on. We're going to have to win their confidence that whatever we do is not going to repeat the past.

OPENING STATEMENT OF PAUL S. SARBANES

Senator SARBANES [presiding]. Thank you very much.

Before I turn to Senator Bryan, I'd like to make my own opening statement here.

I first want to divert for just a moment to underscore these figures that came in this morning on the index of forward-looking indicators, which plunged 1 percent in March, the worst decline since the middle of the recession more than 2 years ago.

Now this all goes to the jobs and stimulus bill, which, unfortunately, was thwarted from passage in the Senate by the filibuster on the part of the minority. But these latest figures show this slowdown that's gripped the economy this year. We've dropped from 4.7 percent growth in the fourth quarter of 1992, to 1.8 percent in the first quarter of 1993.

Now, it's not fully appreciated what this index represents in terms of the indicators and I just want to run through them very quickly.

The negative indicators on their effect on the index from the largest to the smallest were the following, in these figures that have just been released this morning. The index usually predicts economic activity 6 to 9 months in advance.

- A decline in building permits.

- A rise in new claims for unemployment benefits.

- A decrease in the average work week at factories.

- A dip in consumer confidence as measured by the University of Michigan survey.

- A decline in orders and contracts for new commercial buildings and business equipment.

- A drop in new orders to factories for consumer goods.

- A decrease in the inflation-adjusted money supply. I have to tell you, I can't believe that the Federal Reserve, with the economy as weak and anemic as it is, has allowed a decrease in the inflation

adjusted money supply, when one of the arguments that's being made for a restrained fiscal policy is that we'll get some accommodation on the monetary policy side and, hopefully, get some economic expansion out of monetary policy. And we get a decrease in the inflation adjusted money supply.

Going on with the indicators, a speedup in delivery times from factories, which is an indication of falling demand.

A fall in the inflation adjusted backlog of orders at factories, a sign that the current work force is having little trouble keeping up with demand.

The only two indicators that have moved in a positive direction out of this whole list were stock prices and the prices of raw materials. That's very disturbing economic news and it only underscores, in my judgment, the folly exercised by a minority of the Senate in blocking action on the President's jobs program.

I want to turn now just very briefly to the subject of today's hearings, the HUD management issues.

Obviously, there's a pressing necessity to restore the credibility of HUD and we're looking to the new Secretary and his team to do that. In fact, unless that credibility is restored, HUD is not going to be able to marshal the resources to deal with the problems that plague our cities and address the vast housing needs that span this country.

In preparing for this hearing, I've become increasingly convinced that the problems facing HUD, the administrative problems facing HUD, were far more serious than we'd been led to believe during the previous administration.

I think the past administration deserves some credit for ferreting out some of the worst abuses with respect to the ethical environment. But the general—there's a distinction. I do think they got at these kind of absolutely gross ethical abuses, and I want to give Secretary Kemp some credit for that. But I don't think the standard operating problems, the general management problems, were really effectively dealt with, and that agenda has been handed to the new Secretary.

It's very clear that the data systems and financial management at HUD are inadequate. The Robin HUD and the coinsurance scandals pointed out in stark terms that HUD was unable to mind the store. And they also point out the huge potential cost of poor financial controls and poor oversight.

There is nearly, as I understand it, 70 different data systems in the Department that cannot communicate with one another. These systems cannot be relied upon to provide timely and accurate data. In fact, we'll want to hear from the inspector general about the section 8 system, which I understand is behind schedule. In fact, I still recall vividly when the previous administration came to the Senate Appropriations Committee the night before their mark-up in 1991, with over a \$1 billion error in their estimates for section 8 subsidy renewals.

I think there was also a tendency in the Department to freeze it in order to avoid anything that would create difficulties for the Secretary and the Department. In other words, the reaction to the problems tended to be just to freeze everything in place. That meant programs didn't move. Appropriations were not put out in

the field in order to address pressing housing needs, and that problem crops up again and again as you look at the different programs and find that there's a significant amount of money in the pipeline which, effectively dispatched, could be doing the job for which it is intended.

Mr. Chairman, let me just say, in closing, I'd like to emphasize three points.

Often, when we look at scandals, we look at some abuse that was committed by someone. I think we have a different kind of problem at HUD today, and that is what has not been done in order to make the agency work better and more effectively.

Second, it's clear to me that HUD needs to focus on streamlining unnecessary procedures and changing the attitude of paralysis that seems to permeate a good part of the agency. This is certainly a marked attribute of the field offices across the country, according to the reports that I've seen. And I know the Secretary is now working on putting in a new team in those field offices in order to try to turn that attitude around.

And finally, last week at a hearing on the HOME program, we asked Jim Rouse why it was that some public housing authorities were working well and others weren't. Why is it that some cities have good public housing and others don't. Even in the same city, you have some projects that are quite adequate housing and others that are a complete disaster.

He answered in one simple word. He said, management. Now we're going to do a hearing in the subcommittee later on this very issue. We really want to sort of pinpoint what it is that makes some housing—this is public housing I'm talking about now. Projects seems to work well and other fail miserably. We want to explore some of the success stories, as well as some of the failure.

But Rouse's response, management, may tell a good part of the answer. And therefore, I think the focus of this morning's hearing on HUD's management is extremely important. I think it's very important to understand the enormous challenge and task that's been handed to Secretary Cisneros as he tries to deal with this issue. Now we know he's trying to turn it around. The National Association of Housing and Redevelopment officials said in a letter to me:

Already, Mr. Chairman, our members have found a sea change in attitude among HUD officials with whom they deal on a daily basis. The "gotcha" mentality has been replaced by one of pragmatic problem-solving. Clearly, this changed attitude among HUD employees is a direct reflection of leadership from the top.

Well, that's a very good beginning. We're anxious to see what other ways the committee can be helpful to the Secretary and the Department as they really try to put HUD on an effective footing in order to do the tasks with which it's been charged by statute.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Sarbanes. And let me also acknowledge—I had to step out and take a call—but I want to acknowledge the important leadership that you have given and continue to give in the housing area relating to the span of responsibility in the Department of Housing and Urban Development. And I also want to thank Senator Kerry for his important statement initially.

Senator Bryan.

OPENING COMMENTS BY SENATOR RICHARD H. BRYAN

Senator BRYAN. Thank you very much, Mr. Chairman. I'm going to be brief. I'd like to ask unanimous consent that a statement that I had be made a part of the record.

The CHAIRMAN. Without objection, it is so ordered.

Senator BRYAN. And just to make a couple of observations. Mr. Secretary, as I'm sure you're well aware, and as the comments of my colleagues make abundantly clear, the management problems that you face are absolutely monumental and staggering. They've accumulated over many, many decades.

Just as Senator Sarbanes observed, I think with you, we have a change in attitude and an approach which gives me great cause for optimism. Let me just mention one aspect of this new approach that I think is going to be terribly important.

There are excellent public housing managers in some agencies and departments throughout the country. They need a working relationship with HUD that makes it possible for them to do their job. We have some projects in Las Vegas and Clark County which are extremely well managed. Indeed, when compared with their private sector counterparts, it is clear that if one had a choice, they'd actually prefer to live in the public housing facilities.

They're better maintained, better run, they're better managed. And yet, there is an endless torrent of regulations that make it virtually impossible for them to spend the kind of time and resource commitment that they ought to make to providing better housing and instead, they are entangled in this seamless web of regulation that we need to cut through.

I hope, as part of your change of focus in terms of providing that kind of management, that you will walk, if you will, in the steps of those people that are actually on the front line and doing management, and give them the flexibility.

We've had a discussion of the situation in Reno, which I know both of you are working on, where a project that was approved, a two-story project, was reduced to a one-story project. It's actually less in cost, and 2 or 3 years later, we're still waiting to get approval.

Now that occurred in the previous administration. I don't cite that as a criticism certainly of you and your administration, but we've got to get a more responsive approach. I think we can do so. And really, what's at issue here is the credibility of Government. Can Government do anything right?

And I think that there is a rising tide of skepticism and cynicism in this country that whatever Government touches, in the vernacular of the street, it screw it up. I don't happen to believe that. That needs to be the case. And I think the attitude and philosophy of some of your predecessors, frankly, is in large part responsible for that because I don't think that they really had the kind of commitment that I find in you to the requirement and the purposes of the Department and what it can accomplish.

I look forward to working with you and I acknowledge once again your support for a little problem that we had in our little field office in Las Vegas.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, I think the statements you've heard so far this morning show the intense interest that the committee and members of the committee have and the issues that you're here to talk about today.

We have great confidence in you in terms of your strategic direction and leadership, but also, your management orientation and purpose.

I think it's very important that you be frank with us about the problems that do exist because I think, as we set out to correct them, as you do, and you ask us for what help we may have to provide to assist you in doing that, that we really have a very objective understanding of where we start from, so we have a way to measure what we are able to do in terms of constructive change from the situation that you found when you walked in the door on the first day.

So I want to have you present this with the varnish off. I know that's your approach, anyway. But I want you to be particularly frank and candid with us in telling us exactly what the state of affairs is and what you think needs to be done and how far it is you think we have to go.

We'd be pleased to hear from you now.

STATEMENT OF HENRY CISNEROS, SECRETARY, HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC; ACCOMPANIED BY: MICHAEL HILL, ACTING ASSISTANT SECRETARY FOR ADMINISTRATION; AND TERENCE DUVERNAY, DEPUTY SECRETARY

Secretary CISNEROS. Mr. Chairman, thank you very much.

First of all, let me say how much I appreciate your holding this hearing. It gives us an opportunity to lay out the baseline situation. We are mindful and respectful of the oversight responsibilities of the Senate, of the Congress, generally, and we also appreciate your setting out the expectations that you have of us.

We welcome your suggestions and advice, and particularly the spirit of building a relationship of solving problems, which may mean that we will have to come back to you over the months and years to talk about resources, to talk about personnel and other matters.

I truly appreciate the spirit that's been articulated here this morning.

As in any other business or government enterprise, it really is about people. So the most important steps of the first months have been to identify the best people in the country that can help us deal with some of this backlog of problems.

I have seated here with me two gentlemen in whom I have great confidence. To my left is Terry Duvernay, who has been confirmed, as you know, as the Deputy Secretary of the Department. He brings a vast reservoir of experience. The particular importance of his being seated here this morning is that he will bear a large responsibility for driving with me the efforts in this area of management. Mr. Michael Hill, seated to my right, is the Acting Assistant Secretary for Administration. He is the top professional in the administration area at the Department and has been very helpful. He brings a kind of very steady, experienced view to these issues.

There are several people in the audience that I'd like to call to your attention because they will play major roles in this, though they are not yet before the committee officially.

Marilynn Davis, who is the designee for Assistant Secretary for Administration. You will meet her in due course when she comes before you. She is presently the chief financial officer for the housing authority of the city of New York, the largest housing authority in the country, is a Harvard MBA with corporate experience at American Express and General Motors and brings the right mix of management and public sector skills to the job.

Susan Gaffney is the designee for Inspector General. She comes to us from the Management Integrity Division of the Office of Management and Budget and has about 20 years of experience in Federal inspector general work. She becomes one of the few women to be designated Inspector General in the Federal service and brings a reservoir of specific experience in the Inspector General field.

It was the kind of talent we were looking for.

The CHAIRMAN. It's about time we have some women serving as inspector generals. I congratulate you for that.

Secretary CISNEROS. Several people are not here, but I would like to recognize them because they will have such large roles in this.

I believe before the committee last week and one of the persons you're voting on today is Nicolas Retsinas, who, as the Head of FHA, the Housing Commissioner, has immense responsibilities on the multifamily work-out issues and others.

Joe Schuldiner, the designee for public housing, presently the public housing executive director in Los Angeles, prior to that, in New York, experience in big public housing systems, and a sterling reputation. He will be before the committee in due course.

And finally, a name I'm not able to divulge at this time because he's not been officially named by the White House, but one of the most important steps we've taken in the early months was to designate a separate Chief Financial Officer and then go after the best person we could find in the country to be Chief Financial Officer, a position distinct from the Assistant Secretary for Administration that allows a focusing on financial and data systems as the inspector general and GAO reports have recommended.

I just wanted to say a quick word about people because their knowledge, their experience, their backgrounds are so important to the process we want to undertake.

Let me at this point, before going to some remarks from my text, try to do you a service, if I may, and refer to some charts which would allow a setting of the context.

The first chart sets out some general current priorities. The first and most important, not just chronologically, but in actual expenditure of effort, is the one we're focusing on today, which is remedying inherited management deficiencies.

You see here listed 3—our common usage of the Department is to describe 10. But these are the three that are called the systemic or overarching management problems—data systems, resource management—that's identifying people and money—and internal controls. I'll talk about all of these three in just a few moments.

The second priority thrust is what we're calling reinventing HUD. And that is, literally engaging people, not only in the head-

quarters at all levels, but throughout the regional and field offices in redesigning the Department. It is the first effort of its kind that I know of in a Federal agency where we literally have as a goal reaching every single one of 13,500 people in the Department and asking them how they could do their job better.

By the end of next week, we will have made available a workshop in which we probe people's thoughts about this, as well as engage them in thinking about solutions made available to all 13,500 people in the Department.

That's been an immense undertaking. We've had to deputize people from the headquarters and send them out to the field offices and the regional offices where they're holding meetings of 100 people a day for a full day for 5 days in a row, so that at the end of the week, they have met with 500 people in the field offices and regional offices across the country.

The reinventing process is very important to us, and I'll mention more about it in a moment.

The third priority, Mr. Chairman, you will recognize as the point that I tried to make last week in the opportunity that you gave us to discuss future policy directions for the Department.

Perhaps the greatest frustration I've encountered in the early months has been that we're spending so much time on the management and reinventing issues, that we tend to think that that's the job, when the job actually is trying to make a change out in the country, trying to touch people in communities and urban areas across America.

We can't get to doing the best job possible, however, without dealing with these earlier questions. Nevertheless, we must never lose our focus on what we're about. And we have focused on three major policy directions. Trying to create a Department that relates to community as never before. Trying to create programs that infuse a measure of economic lift and upward mobility for people. And confronting the behaviors that are a problem in our society—racism and other destructive behaviors.

We expect that as we carry out these policy directions, they will be informed by the management and reinventing changes, and that we will focus more on changing existing programs, consolidating and building on a set of core programs, than coming with new baubles and bangles and gimmicks in terms of new programs.

My assessment in these early months is the principal flaw of the last few years, the kind of thing you've been discussing today is the tendency to go after highly ideological, attractive, new proposals, fund them meagerly, produce little, and leave the core programs and these management issues in disarray. Clearly, that's not a way to do the government's business in a responsible manner.

Let me quickly describe for you the next chart, and I will move through this very quickly. But it does attempt to try to put in organizational terms what I have just described. Now this is a somewhat complex chart. I apologize for that. But the two key boxes to focus on are these two, what we're calling the management excellence team, focusing on the management issues, and another group called the policy redesign project, which is focusing on looking at our existing programs and asking whether they are presently structured correctly.

So, again, one deals with management issues inside the Department, the other deals with policy questions in our programs.

The management excellence team is a core of people who will be detailed to look at the management questions. It will report to the Assistant Secretary for Administration and to the Deputy Secretary.

Terry also will have responsibility for the data systems and others of the specific management issues I described and the Assistant Secretary for Administration is undertaking a look at our training responsibilities. The only way we're going to get the job done is to train people. HUD has very technical responsibilities—appraisers for FHA and systems analysts out in the field and financial people. So we have a big training job and we're about it in a serious way.

So all of this represents a kind of management approach. And as I said earlier, Terry Duvernay has a very key, Mike Hill now, Marilyn Davis, whom I introduced a moment ago, will also play key roles. This is one whole package.

The other is more policy related. It's the policy redesign project. It reports to the Assistant Secretary for Policy Development and Research and through him, to the Chief of Staff, who is Bruce Katz, who you know well and used to work with many of you as a colleague.

Bruce's interest is really policy redesign and, as a result, those of you who communicate with him sometimes daily by telephone, know that we're working hard to question the premises of some of our existing programs.

Now all of this, then, relates to the national performance review and to our continuing effort to reach out beyond the Department. I just wanted to show this to you in organizational space.

Finally, let me just very quickly run through this last chart because it spells out what these two different groups are going to be working on.

The management excellence team is working on mission-driven Government, organizational structure, budgeting systems, civil service reform, information technology, financial management, internal barriers, regulatory systems, personnel practices and so forth, all of the management subjects which we feel we've got to get a handle on.

We've taken our very best people in the Department and selected them into a core group that will be working on this management set.

The other policy redesign group will be working on these policy themes—community, economic lift, behaviors, program content, legislation, regulations, et cetera.

I just wanted to give you something of an overview and a sense of how all of this comes together in real terms in a large organization. And if I may just quickly extract from my prepared text. I want to reserve time for your questions. But I do want to also comply with your request that we hit the highlights of some of what we've found.

Liz, if you could put back the chart that deals with—the very first one. I want to walk through the three systemic management efficiencies, and I'll begin with data systems.

Data systems at HUD are antiquated and not integrated and continue to cripple the effective management of HUD's programs, diminishing our ability to provide quality service to our clients. These deficiencies surface in three areas. First, a number of key program functions are not automated and continue to be performed on a manual basis.

For example, HUD's staff manually reviews payment vouchers for section 8 assisted housing disbursements. To ensure the timely remittance of rent subsidies, vouchers are reviewed after the disbursement has been made to the owner, increasing the potential mispending of program funds. In other words, the review occurs after the disbursement. With enhanced technology, HUD's staff could devote more time to monitoring assisted housing projects to ensure clients have safe and decent housing.

Second, since many of HUD's systems do not share data, duplicate data are maintained in multiple systems. And the data is not always consistent from system to system.

One of you noted a minute ago some 70 or so systems which we're now trying to reduce to nine, but it is a major problem. As a result of this inconsistency, the Department cannot always provide its clients with timely and accurate information. This can also retard the processing of grant applications and delay the release of funds to recipients.

Finally, as a result of inaccurate and incomplete data in its systems, basic information, such as the number of tenants under section 8 contracts, basic information, the number of people we're working with in section 8, is not readily available to program managers.

This hinders HUD's ability to manage its programs and provide quality service to such constituents as subsidy recipients, housing authorities and grantees, as well as to keep informed those whose responsibilities are oversight, members of the Congress.

The current systems integration effort is faced with problems. There's serious doubt among HUD managers about the viability of the existing plan to create nine integrated systems and have them all up and running by September 30, 1998.

The CFS/TRACS project has fallen behind schedule and target dates for the other systems may be unrealistic. The Department's systems integration plan needs to be reviewed and updated to reflect systems development activities over the past year and a half.

It's clear to me that we must apply the lessons learned from our early experience with CFS/TRACS to the rest of the systems integration effort. Here's what we must do.

The effort must have the total support and involvement of top management—assistant secretaries, the deputy secretary, and myself. That involvement has to continue throughout the entire project. We believe we are now providing it.

There must be a detailed plan, second, laid out at the very beginning which carefully identifies the objectives and benefits of the new system and documents each step.

Third, program managers, both from the field and the headquarters, have to have ownership of each project. They must be able to direct the objectives, the expected outcomes, the steps to be taken.

Fourth, progress must be tracked and problems identified and resolved.

And finally, sufficient resources, human and financial, in sufficient quantity and quality, must be allocated to this process.

I have said to our own staff that we must hold people accountable for the quality and the deadlines involved, and that these are issues over which people would lose their jobs. That is to say, if they cannot meet objectives, then we will not have people telling us at the last minute that we're going to be delayed by another year or another 18 months. We will simply have to remove people. But in order to do that, we must have fixed points of accountability and we have made that an element of our data systems process.

The second issue that I would cover is resource management.

Numerous audits have found that HUD has not had adequate staffing or training or travel resources to prevent fraud, waste, and abuse in its programs. These audits have found that HUD does not effectively monitor the many public and private organizations that participate in HUD's programs.

Additionally, they've cited HUD for lax enforcement or lax monitoring of its contractors, an essential and growing component of the Department's work force.

Other audits, such as GAO's 1984 management study, have found that HUD lacks an effective strategic planning process to guide decisions on how many resources are required and how they should be allocated.

Finally, outside observers and HUD staff have pointed out the deficiencies in our data systems, which I've just described, prevent the effective use of the Department's staff resources.

Our reinventing HUD process will play a major role in this resource analysis. It will help us devise a strategic approach. Such a strategic approach will be key to resolving many of HUD's resource management failings. It will drive the administration of our 1994 appropriation and the development of the fiscal year 1995 budget.

It will be the basis for organizing our work force, allocating resources, and helping us develop results-oriented performance measures that will enable us to evaluate program and organizational effectiveness and individual performance. Priorities will be established based on the plan, which will be the yardstick that we use to measure our management performance.

I just mention HUD's capacity and I want to take a minute to talk about the notion of capacity.

Many reports have indicated that HUD doesn't have enough staff to do its job. I will tell you that I do not know for certain whether that is true. What I do know for certain is that presently, HUD lacks the capacity to carry out its mission. To me, capacity is much broader than just the number of staff. In fact, we've identified five basic factors, all of which are part of capacity.

The number of staff, including contractors.

The processes involved.

The skills of the people.

The technology that they're matched to.

And whether the organizational structure is correct.

All of these are capacity. Deficiencies in these factors will have a negative effect on capacity. Inflating, say, one element, increasing staff, probably cannot offset a deficiency in another area—the wrong organizational structure, the improper use of technology.

We have to address the factor that is the deficiency. If we aren't organized properly, you could double the HUD staff and still have a problem.

I've challenged our staff to come up with a better methodology for determining the right level of resources to carry out our mission to demonstrate the proper capacity. When we talk about resources, we mean staff, contractors, money, a total approach to management issues.

Earlier, I alluded to training as being deficient. It's one of my personal highest priorities to address training. As a matter of fact, we've established a training task force which is cochaired, Mr. Chairman, in a departure from recent years, by our top management and the leader of the union in the Department, so that we have a buying-in by an organization representing the personnel very high in the training agenda, and helping us, I must say, very constructively.

One of the things that Jack Kemp told me on interviewing with him, talking with him right after being nominated by the President, was that his worst relationship in the Department, the absolute bane of his existence of the Department was the relationship with the union, AFGE.

I have in the early months worked very closely with the leaders of the organization and I am finding that not only can it be a constructive relationship, but that they bring very many constructive ideas to the table about how to create upward mobility for workers and to innovate on training questions.

I have concluded that they will be great allies in our reinventing process, first, because we couldn't reinvent if we had a recalcitrant work force. And second, because they do have very good ideas in this process.

This training group will be reporting literally tomorrow at 3 p.m., with a new strategic approach to training, which would include not only training of HUD personnel, but also training of some of the people that we work with, such as housing authorities.

With respect to contracting review, we're participating in the Office of Management and Budget's contracting review. We've asked the assistant secretaries to assess whether or not they have adequate resources to monitor their contractors and ensure that HUD is not hiring contractors to perform inherently governmental functions.

I have witnessed over the years in my work as a mayor, and in my community, the ideological tilt toward using contractors because people want somehow to denigrate governmental personnel or to even pick contractors from the private sector when governmental personnel could do the job. There are reasons why they want to somehow show a reduced number.

HUD is a victim of this. It once had 17,000 employees. It now has 13,500. Work levels have gone up. People are doing more, have more work assignments. And yet, one of the reasons why this was

done is because there was a tilt toward contractors, which I'm not at all sure is the right way to do that.

We do have a process underway that will result in a report by June 30 to OMB on the issue of use of contractors.

Now, finally, let's go to the third systemic issue up here, which is internal controls, the third problem that I'd like to discuss. With HUD's problems in resource management and data systems, it's not surprising that our internal controls have suffered.

The HUD scandals of 4 years ago revealed the extent to which the Department's internal controls were ineffective. The scope of HUD's internal controls problem is illustrated by the fact that we've inherited 40 unresolved material weaknesses in various stages of completion, 12 open with action plans in place, and 28 others completed and awaiting an independent verification to ascertain that the problems have been corrected. Still, more material weaknesses continue to be identified by the inspector general.

Secretary Kemp made a start. He acknowledged these problems and laid the cornerstone for management and financial improvements. But more must be done.

The weaknesses in HUD's internal controls are well documented. The real problem is that HUD relies on the IG and contractors to bring problems to light, when managers could be pointing out the weaknesses themselves earlier on as they're developing.

We need to educate and hold managers accountable for identifying risks and for taking action to reduce or control. I believe managers do not understand or value HUD's current internal control program because it is process oriented, nor results oriented.

We need to develop an internal control program that is understandable, meaningful, and valuable to managers. And again, let me stress, everything about the Department today is process oriented—the process of reviews, the process of handbooks, the process of following particular guidelines, and never in the world is there a connection to results, of what it is that we're trying to achieve out in the world.

We want to create a control system that ties people's daily activity more closely to measurable, attainable objectives. This problem, of course, is not unique to HUD. OMB has been struggling with the same issue government-wide for years in an effort to simplify government and make it more useful. While we're taking some steps to train managers on an internal control program, in fact, some 250 managers have been trained since February, we need to address the root cause of the program's lack of effectiveness.

Tomorrow, at 10 a.m., we will have our first session on internal controls. I, along with Terry, will chair that meeting, and we will be designating a Management Control Executive Committee, headed by Deputy Secretary Durvernay, to redirect and oversee the management of HUD's internal controls.

The six program problems identified by the IG as our most serious will be the top priorities—multifamily housing, loan servicing, FHA asset management, section 8 budgeting and accounting, public housing management, CDBG program monitoring, and the GNMA asset management.

I expect the Management Control Executive Committee will set the tone that managers must be rewarded, not punished, for identi-

fyng and reporting control problems and for taking appropriate action to solve those problems.

Let me say, Mr. Chairman, and members of the committee, we're prepared to answer your questions. Once again, I welcome, appreciate and respect the oversight responsibilities, the constitutional responsibilities of the Senate, the Congress. I appreciate, beyond that role of oversight, the comments made here today about a relationship in problem-solving, about expectations, and about your common frustration with us in moving beyond fine-tuning the machinery, making the machinery run, getting the rust off of the machinery and actually getting it to take us where it was originally intended to take us, which is to a better life for Americans in cities and communities across the country.

It is not our purpose in Government to somehow tinker and fine-tune and take our eye off what this organization is supposed to be doing for people.

Thank you very much.

The CHAIRMAN. Thank you very much. That's a lengthy and detailed statement and we thank you for it. This is the kind of detail and thoughtful work that we were expecting and wanted. And so, I appreciate the dimension in which you lay it out.

To try to, in one way, bring it down to one kind of a bottom line, you've had other very important administrative duties before taking on this assignment, certainly not quite of this scale.

If you were to, on a scale of 1 to 10 now, if you were to assign a number to the status of difficulty, internal difficulty on these issues, the management side, the focus side, just the operational side of HUD, as you walked in and as you've assimilated where we are starting out in this administration, on a scale of 1 to 10, with 10 being the best and 1 being the worst, where would you sort of qualitatively say HUD is on these kinds of issues in terms of the kind of climb we need to make here?

I ask you this not as a reflection on any worker because you may have individuals in the operation that are a 10 on a 10 scale and some that are an 8 and some that are 6 that can be an 8, and so forth. But, on the administrative side, taken as a whole, how big a climb do we have ahead of us here? Where are we starting from?

Secretary CISNEROS. It's a hard question to answer because there are so many elements and they all balance off.

The CHAIRMAN. I understand.

Secretary CISNEROS. But, on the average, I would say, because of the continuing problem of systems, the distance we have to go, the inadequacy of resources to deal with these questions immediately, my sense would be it's about a 3, on a scale of 1 to 10.

The CHAIRMAN. Now, as a practical matter, within the range of resources that you think we're going to be able to amass here and bring to bear with a new management team, a changed focus, new effort and so forth, if you look out over a year's period of time, or a 2-year period of time, if we're trying to ratchet up from a 3, and my own view is not terribly different than that, what's realistic to expect that we might get to, recognizing that unless the country is prepared to make a very substantial commitment of resources, that's the way you get to a 10, eventually. But what realistically,

in your mind, do you think ought to be a target over a period of a year or 2 to move us up from a 3 toward a 10?

Secretary CISNEROS. First of all, let me say, Senator, that every time I've been asked about priorities, I have said the priorities are our core programs. I said this to you last week.

The CHAIRMAN. Right.

Secretary CISNEROS. Because we're not going to be able to get a handle on the FHA backlog, on the modernization in public housing, on the other subsidized housing, without putting some resources into them.

The CHAIRMAN. Right.

Secretary CISNEROS. So when given the choice before appropriations committees as to what gets cut in a further round of cuts, it cannot be our core programs without doing serious damage to our ability to pull out, because otherwise, we live in a fool's paradise of trotting out new baubles and bangles, while every day, further housing units become vacant.

The CHAIRMAN. We're sliding backward in that area.

Secretary CISNEROS. Slide backward and we just end up with this backlog. I think, if we focus on the core programs both internally and in the funding out in the real world, and if we consolidate and manage well and avoid the temptation to try to sort of become overly experimental and we appeal to you to help us make sense of things—for example, we may come back to you and talk about how we're never going to have enough money to monitor all of our programs at the right level, so we need to remove some of the regulations that we're monitoring and trust locals, local communities, to do a better job because we give them more flexibility and more authority. That would be one way to try to meet several objectives at the same time.

The CHAIRMAN. Right.

Secretary CISNEROS. I think we can get this Department over the course of several years to a 7, which would be respectable. And I think if we did a really good job, we could get up around an 8.

The CHAIRMAN. I appreciate your honesty. An honest answer is a very refreshing thing, wherever it comes.

Secretary CISNEROS. But let me say again, Senator, the frustration for me is that I didn't come to this position because I wanted to get a good grade in management. I want to help people out in the country who are today living in decrepit housing and living in unsafe neighborhoods and youth who are spending their time in gangs instead of in school. So we must move fast.

The CHAIRMAN. And losing their hope in the future as a result of that.

Secretary CISNEROS. That's right. So we don't have a whole lot of time to waste on these issues, or we're going to do what Anthony Downes, I recall years ago, talked about a thing he called Internalization of Subgoals, which is trait of big bureaucracies. They focus on the internal goals and lose sight of the mission. I just don't think we can afford to do that.

The CHAIRMAN. Let me stop because we have other members and it's late in the morning. We've got another witness. We've had two other members arrive.

Senator Sasser, did you have a brief comment you wanted to make, and then I'm going to call on Senator Faircloth, if he has one, too, and then go to Senator Sarbanes for questions.

Senator SASSER. Well, no, no comments. I have some questions, Mr. Chairman, except to say I'm pleased to see the Secretary here this morning.

The CHAIRMAN. Senator.

Senator FAIRCLOTH. Thank you, Mr. Chairman. No, I do not have a comment.

The CHAIRMAN. Very good. Senator Domenici, I know you're just coming in and I was just interrupting our procedure to allow members who've come to make any opening comment they wanted to make.

Senator DOMENICI. Why don't we just let him proceed?

The CHAIRMAN. All right. Very good.

Senator Sarbanes.

Senator SARBANES. Well, thank you very much, Mr. Chairman. And I join with you in welcoming the Secretary. I also thank him very much for a very candid statement.

Let me tell you my concern, and you were on it on the last point you were making. What did you call it, Internalization of—

Secretary CISNEROS. Of Subgoals. It's unfortunately jargon from the public administration discipline, academic discipline. But it does make a point.

Senator SARBANES. It does make the point and I'm concerned about that point.

I think it's very important—I know this is a hearing on management and we ought to stay on it, obviously, that you are instituting all of these changes. But I'm concerned about trying to do quickly things that will enable resources to get out in the field and start actually addressing some of these housing issues.

Now in that regard, I think there's a possibility because many of the programs we've enacted now have tried to create partnerships, put some initiative down at the local and State level, or with the nonprofits, or even the private sector, to try to address these housing needs.

In some instances, I don't think that the regulations to implement those programs have been put into place yet, finalized. In other instances, I think the regulations are in place, but are seen as impediments. They've been overdone, at least that's what we're hearing.

Somehow, we need to free up all that potential energy that exists there so that people can sort of be knocking on your door and say, well, you know, you're busy straightening out all your problems in management and we're here, we've put something together and we're here presenting it to you and we'd like to get it approved so that we can move on it.

I think it's important to make some of these changes in the field office because some of those offices have really been operating as obstacles and not as expeditors of trying to deal with these problems. And I wondered whether there's—I hate to throw another crash program on you because everything you're trying to do is a crash program, and if you get some breakdown in your financial accounting, that becomes a crisis. Everything is sort of a crisis. But

that's, in a sense, the problem you've been handed. I wondered what you're doing along these lines.

Secretary CISNEROS. About the field relationships? Is that the question?

Senator SARBANES. Well, one, about getting the regulatory regime in order.

Secretary CISNEROS. OK. Right.

Senator SARBANES. Both putting it in if it's not there or straightening it up if it's there but causing a problem. And two, energizing your partners out in the field, the other governmental levels and the private sector, both profit and nonprofit, to move ahead, which of course, I think involves in part, energizing your own operation in the field rather than here in town, to move ahead.

Secretary CISNEROS. Right. First of all, you can see by looking at the bottom, the left most bottom boxes, the management excellent team and the policy redesign project, that both are moving simultaneously. The policy redesign group speaks specifically to the kinds of questions that you have raised. That is to say, analyzing what of the problems that we cause are, OMB regs, HUD guidelines, statutory aspects of our programs, and what new logic do we have to bring to our programs if we want them to work.

I think we all know now that there are some themes we've learned the last number of years. They're not Democratic. They're not Republican. They're not liberal. They're not conservative. But they are the way big institutions have to relate to be effective—decentralization, more entrepreneurial behavior, greater authority and trusted at a lower level. How do we infuse all of our programs with those kinds of themes?

Two quick anecdotal comments. Yesterday morning, at our Monday morning staff meeting, George Latimer, the former mayor of St. Paul, who is working with us in the Department and helping me organize some of these efforts, asked the specific question—how do we know, he said, which of the impediments that we're charged with are regulatory? Which are just written in the handbooks because somebody wrote them that way and they're not really based in regulatory decisions at any high level, and which of them are statutory? We've got to make a clear distinction of that and it's going to come out of this process.

The second anecdote is that last afternoon, I went to Atlanta to meet with President Carter's Atlanta project, which is a truly revolutionary effort to bring the business and civic community in Atlanta together to try to address problems.

Everything I heard from them was related to what you have just said—give us flexibility, work with us, but don't tie us down so tightly that we can't get things done across traditional lines.

All of these themes, Senator, are going to emerge from this policy redesign effort. And we'll be back to you because some of them are statutory and do require some consideration of previous congressional decisions.

Senator SARBANES. Now how are you progressing on energizing the HUD field offices across the country?

Secretary CISNEROS. The first step was the piece that I mentioned at the outset, which is that we will, by the end of next week, have engaged—and this is, I think, significant—we will have en-

gaged or made available, at least, to 13,500 HUD employees an exchange on what we're calling our goals and principles of service.

We have deputized talent from the Department, and I use that word advisedly because they're not the highest ranking people. They're not people with titles. They're people who have attended some work sessions in the Department and become familiar with what we're talking about.

Put them in 10 groups of 2 or 3 and sent them out across the country. They've been to the Newark field office, to the Kansas City office, to the Seattle office. And there, at each place—we have offices of 500 people at our regions and they have met with those people for a day-long session, about 90 or 80 or 85 people in each of those sessions and literally engaged them in forcing them to rethink what is HUD's job and how do we do it better? They hold break-out work sessions, come back with recommendations.

I met with them, met with the people who have been going out around the country last Friday afternoon for 2 hours. And let me tell you, Senator, it was sobering to hear the disconnect between what we think we're doing at HUD headquarters and even in the Congress, and what is really happening at the regional and the field offices. The disconnect is immense—on personnel practices, on interpretation of programs, on feeling isolated, on lack of communication, on lack of training.

We will be living, as I said earlier, in a fool's paradise if we think whatever brilliance we can bring to things at the headquarters, where there are 3500 people, doesn't reach the 10,000 people that HUD has out in the regional and the field structure. So we're absolutely mindful of this and committed to it.

Senator SARBANES. Well, a very important point. My time is expired. Thank you.

The CHAIRMAN. Senator Faircloth.

OPENING COMMENTS BY SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you. Mr. Cisneros, I don't mean to keep harping on the same subject, but a lot of us in the Senate, and I think more in 18 months from now, will be running on pretty much one goal, and that is, cutting spending in the Federal Government. That's all we hear. We pick up an average of 1,500 letters a day and 700 telephone calls, cutting spending.

Well, of the committees I've been to, and I understand Government's got to function. The President says we have to cut spending. Everybody says it. But other than the military, I've seen no signs of it whatsoever anywhere.

Now I asked you about it the first time we were here. The budget has gone from \$12½ billion in 1980 to \$26 billion in 1993. Now it's going to propose to go to \$30 billion in 1997, a 16½ percent increase, with 11 percent inflation.

What are your plans? Is there just no end to it? Is it going to keep going? Is that what we're saying?

Secretary CISNEROS. No, sir.

Senator FAIRCLOTH. How long are the American people—have they got any hope out there, even?

Secretary CISNEROS. Senator, I don't believe I could honestly tell you that I would expect that HUD is at any point going to ask for

less funding. We have reported and have the inspector general and GAO and other reports that tell us that we have big problems.

Senator FAIRCLOTH. Where are the big problems? What do you mean big problems?

Secretary CISNEROS. Public housing modernization. Modernization of public housing units across the country.

Senator FAIRCLOTH. Modernization of it?

Secretary CISNEROS. Of public housing units.

Senator FAIRCLOTH. What does that mean?

Secretary CISNEROS. Well, we've got public housing units that are vacant, that are unlivable in the condition that they're in today, that are old.

Senator FAIRCLOTH. How old?

Secretary CISNEROS. 1940's, 1930's, vintage. That need fixing. We've got practical problems like 15-year vouchers that run out next year, and unless we renew them in some fashion, low-income people are going to be put out of subsidized units.

Now I thought through the question that you asked because I come from a local level, from a conservative State, and I am frustrated with the problems that we face. And I have actually thought to myself, in an unorthodox way, in a very undemocratic way, I might say, whether maybe we ought to just get out of the business, just get out of public housing.

But what happens? You end up with this immense stock of public housing that's been built. Now you could say, well, turn that over to the private sector. Yes, but how do we make sure that low-income persons get housed? We've already got 600,000 human beings, fellow Americans, on the streets every single night by conservative estimates, 600,000 people homeless.

Senator FAIRCLOTH. These are the so-called homeless.

Secretary CISNEROS. Yes, sir.

Senator FAIRCLOTH. We've got 77 programs looking after them.

Secretary CISNEROS. Yes, sir.

Senator FAIRCLOTH. How many do you think it would take to get them off the streets?

Secretary CISNEROS. Well, I'm not sure—you could say a number of what it would take. I think we can do a better job of consolidating homeless programs and it's something that we're looking at.

Senator FAIRCLOTH. Do you reckon they want to be off the street?

Secretary CISNEROS. Yes, sir. I don't know of a single human being who prefers to sleep on a cold night on a park bench. They may prefer it to the option that they have at that moment, but nobody would choose a park bench as a place to sleep.

Senator DOMENICI. Would the Senator yield for an observation?

Senator FAIRCLOTH. Yes.

Senator DOMENICI. However you might qualify it, I believe, unless they're sick.

Secretary CISNEROS. Mentally ill?

Senator DOMENICI. Correct. There are mentally ill people, and I'm an advocate for their cause, that don't make the choice of staying there in the same way that you and I would.

Secretary CISNEROS. That may be true, although I have talked to some of those folks personally, and the choice they're making is between a park bench on a cold night or a shelter where they feel

that they might get beaten up or get tuberculosis. But that's hardly the choice that we need to offer people.

If we could offer them a single-room occupancy facility where they could have a little privacy and some light treatment for their mental health condition, I doubt if they'd be choosing that park bench.

Senator FAIRCLOTH. Mr. Cisneros, if you were a new Member of the U.S. Senate and had committed to cut spending in the Federal Government, and not vote for tax increases, where would you start?

Secretary CISNEROS. I believe I'd start about where the President has begun, which is to say——

Senator FAIRCLOTH. Where was that?

Secretary CISNEROS. [continuing] The conditions of the international environment have changed and we don't need to be spending quite the amount that we have on the military. The result of the President's program——

Senator FAIRCLOTH. Where do we go from there?

Secretary CISNEROS. I think we can do things better, and I have offered today some ideas for consolidating programs, including the——

Senator FAIRCLOTH. You talk about more money. You're talking about spending 16 percent more money. How do you reduce the money? We're talking about doing it better. Everybody in the country has heard about doing it better.

Secretary CISNEROS. Senator, let me just say, we may have a philosophical divergence because my principal objective in Government would not be to start with looking at the money, but, rather, at the job—what is it that we're trying to do in America?

Senator FAIRCLOTH. But don't you think if we're going into debt a billion and a quarter or a billion and a lot of dollars a day, every day, that we'd better look at the money?

Secretary CISNEROS. I think we've got to ask ourselves, first, what is the philosophy that we're trying to accomplish. And there are things in this country that need attention and need work. The American people, I think, at least my experience is, at the local level, if we can tell them what it is that we're spending for, they will buy some of the priorities.

Everything that I've seen, the American people——

Senator FAIRCLOTH. What do you mean, buy some of the priorities?

Secretary CISNEROS. They want better schools and they're willing to pay for schools. They want crime prevention and prisons and they're willing to pay for crime prevention and prisons, and crime reduction.

Senator FAIRCLOTH. Crime prevention in the prisons?

Secretary CISNEROS. No. Crime reduction, fear reduction in communities and prisons for those that need to be in prison. I mean, these are priorities the American people would buy. As a mayor, I've had the experience of actually offering people tax increases in a vote tied to something and they will vote for them. The American people are not as afraid of Government as we think they are if we offer them a good product.

Senator FAIRCLOTH. I think they have felt like that for 30 years, they've had a bad product and that we've seen the debt go—in

roughly the last 30 years, we've put \$2½ trillion on it. And maybe some of the other Senators are hearing something different from what I am, but all I hear is no new taxes and cut spending.

Secretary CISNEROS. Yes, sir.

The CHAIRMAN. Senator Sasser, chairman of the Budget Committee.

OPENING COMMENTS BY SENATOR JIM SASSER

Senator SASSER. Thank you, and I'll be very brief because I think Senator Domenici needs to ask a question or two and he's got an appointment that he must keep.

The CHAIRMAN. He's going to be stepping out for a minute, so he'll be back. Please take your time.

Senator SASSER. Mr. Secretary, welcome this morning. Following on questions that my friend from North Carolina was asking, one of the problems I think that you and many of your other colleagues coming into this administration find is that spending, or certainly staffing, has been dramatically reduced in your Departments over the past 12 years.

For example, since 1980, staffing at HUD has declined from 17,000 people to under 13,000, while at the same time, the mortgage insurance in force has grown from \$30 billion to \$46 billion. In 1983, HUD administered approximately 85 program, while today, HUD administers approximately 115 programs.

Secretary CISNEROS. Correct. Yes, sir.

Senator SASSER. So we've seen a starving over the past 12 years of the domestic departments in this Government, while the Department of Defense has grown fat. I just came from a hearing wherein the administrator of the Strategic Defense Initiative program, we're spending \$3.8 billion this year on SDI, and on the present track, we'll be spending \$6 billion next year. And the fastest growing component in the Federal budget now, Mr. Chairman, is funding for theater-based missile defense.

I'm sure the Secretary of the Department of Housing and Urban Development wasn't aware of that. But under the budget that's been presented to us, the fastest growing component in the Federal budget is funding for theater-missile defense, growing faster than all the entitlement programs proportionately, faster than interest on the national debt. So, yes, we need to cut some spending, but we need to be, I think, selective with where we cut and selective in where we add.

Now, with regard to this problem HUD has with a reduction in staffing, while at the same time, the workload has increased, you've been turning, I think, to outside contractors to try to deal with some of these problems. The inspector general has complained there's been inadequate monitoring of some of these outside contractors. How much of the HUD activity is presently contracted out and how efficient is the use of contractors to conduct HUD activities? Have you gotten any handle on that yet, Mr. Secretary?

Secretary CISNEROS. Senator, the Office of Management and Budget has asked us to undertake a comprehensive review of our contracting load and also procedures and we are beginning to do that. I cannot tell you explicitly today what number of contractors or what dollar amount in contracting, but I do know that we are

going to do a comprehensive analysis of that for the Office of Management and Budget that is concerned about this practice that came into being the last number of years governmentwide. It is a serious problem for us. In some sense, the loss in FTE, full-time equivalent, positions from 17,000 to 13,000 was offset by contractors.

But you are correct, there was an insufficient monitoring of contractors, and I worry about the practice because my anecdotal discussions with people tell me that we have contractors who come in. They are expensive. They have to be taught, gotten up to speed by some of the people within the Department, which takes time. We have the anomalous situation of contractors writing the guidelines on the programs, writing the handbooks for our personnel, which it's not clear to me why that's a wise course. It is expensive. It does result in being able to say that we brought positions down, but if they're not carefully monitored, we haven't improved the work product very much.

Senator SASSER. One final question. I'm very much interested in your project here of reinventing HUD. I wish you well in that process. The reforms that you envision for HUD. Do you anticipate any need for legislative changes in that process?

Secretary CISNEROS. Yes, sir. I can't tell you at this moment what they might be, but everything that I have heard from folks in the Department and outside the Department tells me that there will have to be some request for changes.

The HOME program, for example, the very narrow income-targeting guidelines, for example, make it very difficult to be able to write applications and design programs at the local level. That's just one example. There would be other things that we would need your consideration on.

Senator SASSER. Thank you.

The CHAIRMAN. Senator Domenici.

OPENING COMMENTS OF SENATOR PETE V. DOMENICI

Senator DOMENICI. Thank you, Mr. Chairman. Mr. Secretary it's great to be with you. I'm sorry I was late. Mr. Duvernay, it's good to see you in your official capacity. Mr. Hill, I don't remember what your title is, but it's good to have you here also.

Secretary CISNEROS. He's the Acting Assistant Secretary for Administration.

Senator DOMENICI. Fine.

Secretary CISNEROS. He's the top professional in the Department for Administration.

Senator DOMENICI. You've got a tough job.

Mr. Secretary, I'm not going to refer to the management innovativeness that you put up there. In fact, I wanted the Chairman to know that that chart was very discriminatory because Republicans can't read it. And if they're over here where I'm supposed to be, I couldn't even see it. So I went over on that side so I might get a view of it. In any event—

Secretary CISNEROS. It has to do with the angle of the chart, not the size of the print.

[Laughter.]

Senator DOMENICI. Well, when you get old like me, you've got to go borrow someone's glasses. But, anyway——
[Laughter.]

Senator DOMENICI. Mr. Secretary, I came today because I have great hope and confidence that you are going to try to help us and help the President fix up HUD. Frankly, I started agreeing with your assessment that maybe your secretariat ought to be the coordinator and assembler of an urban policy for inner-city America, and I haven't given up on that. I'll share a thought with you about it in a minute.

But Mr. Secretary, the problem right now is that there is no reason for people who need housing and who feel they're entitled, whether they're section 202 projects, whether they're elderly, whether they're the Indians who need housing, whether they are homeless and the small program we've got for homeless housing. Incidentally, I had the privilege of supporting the homeless housing legislation, and I sponsored the bill for the severely mentally ill who are homeless. That's my legislation and we have a devil of a time because you need the HHS Secretary to sign an MOU with you because the program has both services and housing. You end up fussing, as to who shouldn't be doing services, and who should, and so nothing was happening.

Secretary CISNEROS. We've had meetings about it. We're on track.

Senator DOMENICI. They announced the first MOU on that about 18 months ago. I haven't had an opportunity to follow up.

But let me tell you, the reason for lack of hope is not that people want more. The first step is to give people what they think they're entitled to now. It takes 5 years for public housing money to get out and cause something to be done. Seven years for Indian housing, Indian housing worth 2½ times its marketplace counterpart.

I think that I expect from you not just some more of these programs which you must do because you know you need better management, but I hope you will look at the laws we've given you to administer. And if ever I knew that laws had to be changed to give you more flexibility to get things done, in my 20 years, I've seen a lot of them that cry out because we've messed it up so bad.

But there is nothing to compare with the confusion, ambivalence, duplication, that goes right out to what you call disconnect. That disconnect is not only personnel issues. That disconnect is what people think they're going to get when they meet with HUD, versus what HUD tells them you got to do.

They fly off from New Mexico to Dallas, and we're still hopeful that we won't have to when you get through reorganizing, you might put a field office, a regional office in Albuquerque. And I think you will.

[Laughter.]

Senator DOMENICI. But for now, you know, project developers have to they fly off to Dallas and they come back and they call me up and say, we are astounded. We went there to get some public housing and we've been told what we have to do and it will take us 2½ years before we can get back to them. And then we think most of what they're asking us for is ridiculous. Can you just address that issue? How are we going to get housing that we are pay-

ing for in current budgets delivered and remove some of this burden from our people?

Secretary CISNEROS. Well, part of the issue that you raise, sir, is the long waiting lists and the backlog that exists.

First of all, as I said earlier, our first priority is to deal with the pending backlog of problems that exists and that means modernization of housing stock that has been allowed to go into disrepair. But we also are working hard to make sure that in these core programs, there is sufficient funds to continue to go forward.

So we've asked for more money for new units, new units of public housing, new units of section 8 and so forth. As a matter of fact, we modified our budget request before the Appropriations Committee last week to ask for 5,000 additional units so that we could offer more people housing.

Beyond that, I think there are some very promising approaches, Senator, which you would be, I think, pleased with to get non-governmental funds involved, leveraged into adding units.

We're initiating a new partnership with Fannie Mae and Freddie Mac as a result of the 1992 Act which gives us heightened oversight, which we expect will result in many more units of affordable housing made available to the American people.

We're now in the process of setting those affordable housing goals. I've met with Jim Johnson at Fannie Mae several times with Mr. Brensdel at Freddie Mac to make sure that they understand we are going to be working very closely to oversee their work.

We're about to announce an initiative with the AFL-CIO that would create about 11,000 units this next year by trying to use HUD resources matched to pension systems, which have never been brought to this on a systematic basis before. About \$500 million targeted from the AFL-CIO. Eventually, it could be billions. They control \$600 billion of pension systems just in AFL-CIO. That's \$600 billion of the \$4 trillion that exists in retirement systems.

They presently allocate, invest about 3 percent of their \$600 in housing. They'd like to go to 10 percent in cooperation with HUD. We have to do things like make section 8 vouchers available so that it makes sense for them to match that with pension systems. We're doing that in this first pilot project, which will result, as I say, in about 11,500 units. That's a way that we can address housing needs without having to do it in the traditional budgetary fashion.

Senator DOMENICI. Let me just give you an example as I leave, and I hope you understand that while I'm looking for new partnerships and new sources of resources, I'm not one opposed to the Federal Government spending some money in this area. But what bothers me greatly is after we're through appropriating it and drawing new laws, to go home and find that the recipients of it are still saying, it doesn't work. Let me just give you Albuquerque as an example.

Albuquerque has a wonderful public housing program built upon dispersal. Back to a little policy statement made when I was mayor, they don't want to build a whole batch of public housing in one place, which I think we've learned from medium-sized cities, isn't all that bad a policy.

Secretary CISNEROS. Right.

Senator DOMENICI. Right now, they're entitled to either 150 or 200 units. They've been engaged for 2 years in a fight about this dispersion policy versus HUD saying they've got to build it all in one place or in two places. Now it just sits there.

Secretary CISNEROS. That I don't understand. I'll look into that one.

Senator DOMENICI. But, see, I think the disconnect you found is real, and it is that kind of thing multiplied exponentially across this land. I urge that you continue straight ahead with your approach to making it simple and getting it done.

Secretary CISNEROS. We will do it, sir.

Senator DOMENICI. Thank you very much.

Secretary CISNEROS. Thank you.

The CHAIRMAN. Thank you, Senator Domenici.

I want to raise one more question with you, then I want to raise a different issue, and then I'm going to excuse you and go to the Inspector General. I wanted you to just conceptualize, think with me for a minute.

I'm struck by the fact that, in light of everything you've said about the Department of Housing and Urban Development today, that we've got a lot of things, programmatic initiatives that fall under the scope and the responsibility of the Department. And the Department's been starved for resources for at least a decade.

So, you have this problem that accrues after that length of time where you have sort of what I would call a splintered effort and not enough resources coming through the various program channels and program avenues, in many cases, to do what needs to be done or to have done what should have been done in years past.

It makes me wonder, in light of that, if, in stepping back under the concept of reinventing Government, if we may not need to take and effect some kind of a consolidation where, in effect, we take lots of separate channels of effort where we've aimed them at specific problems and subproblems and somehow, kind of homogenize the resources and maybe parcel them back out in a fewer number of channels that seem to make sense from a national strategy and policy point of view, but, in turn, enable local mayors such as you were, or such as Senator Domenici was——

Secretary CISNEROS. Or nonprofits.

The CHAIRMAN. Or nonprofits or other people out there who have to get this job done, to have maybe a broader latitude, not have to go through so many twists and turns to try to qualify.

Plus, it seems to me, you have another problem that arises, sort of analogous to the health care dilemma we're facing right now.

You can finally get to the point where the paperwork system takes on a life of its own.

Secretary CISNEROS. Absolutely.

The CHAIRMAN. And pretty soon, you have a whole expenditure of resources on both the production and the processing of paper as against some kind of word objective. It can become a blizzard of bureaucratic difficulty and it sops up time and scarce resources and money and people's patience and so forth and so on.

Secretary CISNEROS. Absolutely. Senator, what you're saying is right down the line of what we're thinking about and want to bring to you in due course. It would solve several problems.

First, it would allow localities, as well as HUD, nonprofits, to deal with problems as they really are. Homelessness is not just shelter; it's also drug treatment. It's also counseling. It's also outreach and mental health. And if we require homeless providers to apply to six or seven programs to get the comprehensive facility that they want to put in place, that's part of the problem.

The other problem it would help solve is what you've described as the blizzard of paperwork. Every time we create a new program, we've got to create a capacity to monitor it. If we don't monitor it, then we are told we have insufficient resources and insufficient monitoring.

We must resist the temptation for our part to want to solve every new problem with a new program instead of imaginatively working with local communities to come up with existing programs. That's something we have to solve.

And everything about this program also requires some cooperation from the Congress. Many of the reasons for new programs have to do with jurisdictional lines in committees and individual authors of programs who want to see a program survive perhaps past its usefulness, or author a new program. So it will require some real new thinking on the part, not only of those of us in the Department, but also in the Congress to do this.

I can just tell you from my personal experience of the last few months, that when we choose a particular program to emphasize, as we did in the stimulus when we included a program called Supportive Housing for the Homeless, because it is the most flexible homeless program we have. We included it at \$423 million. I got calls from Members of the Congress who had authored other homeless programs who were angry that it was that program and not another that was selected, even though we made the case to them that theirs was too narrow. It wouldn't serve the purpose. They nevertheless insisted that their program needed to be the one that was there. So it's a problem we all have to wrestle with. We'll need your cooperation.

The CHAIRMAN. Well, we'll help you in that area. I do think there is this need to take and somehow go through this streamlining process and you have in Terry Duvernay, I think, as well as yourself and the staff, the team that you've built, I think you're building really an extraordinarily strong team and it's going to take all of that and then some, I think, to sort of hit these established patterns with enough creative force to really make the changes.

I will undertake to do the legislative changes here, fully recognizing some of the barriers that exist that you spoke about, and I think we can make a lot of progress.

Let me move to a different issue. It's my understanding that this morning at 10:30 a.m., an announcement was made with respect to Enterprise Zones. That was the plan.

Secretary CISNEROS. The President was to have a telephone link with six mayors in their offices to describe the Enterprise Zone proposal.

The CHAIRMAN. Well, I want to make a statement about that here and this changes the focus of this hearing, but because this is timely and it's central to your work and this discussion we're having, I want to make a comment about it. And I want to salute

the President for putting forth the Economic Empowerment Act of 1993, which embraces the concept of enhanced Enterprise Zones to try to turn around some of America's most distressed communities.

I have long been an advocate of Enterprise Zones as an experiment worth trying to bring greater economic opportunity to inner-city residents. But I've argued, based on the experience that I've seen and the work that we have done in Michigan and elsewhere, that you have to go beyond just tax breaks for business. You've got to have certain critical wraparounds in the community, enhancements, as we call them, to deal with other problems of insufficient housing, education, crime problems, things of that kind. And you put the two together, I think you can break the inertia and break the downward spiral, but very difficult if it's solely tax breaks by themselves.

We offered the enhanced Enterprise Zone approach last year in the Congress in order to make sure that we had a fully effective package. That package was accepted by the Congress. It became part of what went down to the President. Unfortunately, the Enterprise Zone bill that we passed last year was vetoed by President Bush and therefore, I have reintroduced this year the Enhanced Enterprise Zone for 1993, based on what we passed last year. I think the outline, as quickly as I've been able to absorb it, that the President has put out today reflects the ideas that we put forth in that prior legislation and I look forward to working with you.

I do want to file one cautionary note, and that is, as I understand the approach here, there will be two tiers to the use of the resources that are proposed to take this one. One tier of 100 enterprise communities, described as being up to 65 urban, 30 rural and 5 Indian reservations. And then, second, 10 tax demonstration empowerment zones, up to 6 urban, 1 of which must be for an urban area with less than 500,000 population, 3 rural, and 1 Indian reservation.

And I just want to say to you, as I've said to you before, and to the administration, I think the small number of the major focused empowerment zone efforts, as it's being called here, is too small a number. I think that that is going to have to change.

Just so we have our cards face up on the table, that's something that I think will need to be increased because of the pent-up needs in the country and also the fact that I think, in order to make the kind of progress we need across the country, we've got to, within the limited resources, nevertheless, have a broader effort than that with respect to the major focused efforts.

Secretary CISNEROS. Senator, if I may.

The CHAIRMAN. Yes.

Secretary CISNEROS. First of all, let me say that at every step of the White House's consideration, it was acknowledged that the seminal thinking, the intellectual work that went into this concept came from the work that you had done the previous year on H.R. 11. This is almost directly based on your concept of comprehensive, enhanced zones, with the tax provisions enhanced by Federal governmental—that's the key difference between this and the earlier conception of Enterprise Zones, and I think it makes all the difference.

In the emphasis comes the qualitative difference, and I think this is fundamentally different and we owe you an immense debt for the original thinking that went into this.

The CHAIRMAN. Well, I thank you for that comment and I appreciate the fact that we're using that philosophy. I think it can make a big difference. On the issue of how we allocate the resources, in terms of the number of places that we undertake to do it, that really is a separate point from the one you just made.

Secretary CISNEROS. We will work with you on that. Obviously, the administration sends forward a proposal, knowing full well that when there are experts such as this committee, yourself, your staff, that you will have modifications and contributions to make to it, and we're prepared to work on it.

The CHAIRMAN. Very good.

Secretary CISNEROS. I look forward to being back to discuss Enterprise Zones at your call.

The CHAIRMAN. Very good.

Senator SARBANES. I have no further questions, Mr. Chairman. I want to thank the Secretary for his very strong and comprehensive statement and wish him well in this very big task which he's confronting. You've been handed an enormous challenge and a very difficult deck of cards to play.

Secretary CISNEROS. It is a tougher—it is a steeper mountain than I knew about when I appeared before you at confirmation time, I must say. But we've got our climbing gear on. So—

Senator SARBANES. I'm glad you didn't fully appreciate it at the outset. You might not have taken the job.

[Laughter.]

The CHAIRMAN. I want to add to Senator Sarbanes' comment. I felt when you were nominated and you were here for your confirmation hearing, that you had the potential to be perhaps the single most effective member of the Cabinet. And that's not to diminish anybody else's potential, but I think you bring an extraordinary capacity to face and give the leadership to solve these kinds of problems. I'm even more convinced of it now.

Secretary CISNEROS. Thank you, Senator, very much.

The CHAIRMAN. Thank you. Let me call our next witness to the table. Mr. John Connors, who is the Acting Inspector General.

I will just say, Mr. Secretary, as you exit the room, we will have some questions for the record, some from me and some from other members that we would ask you to respond to fully, and I know you will.

Mr. CONNORS. Good morning, Mr. Chairman.

The CHAIRMAN. Mr. Connors, we're pleased to have you. We'll make your full statement a part of the record and we'll have you give us your summary comments now.

STATEMENT OF JOHN CONNORS, DEPUTY INSPECTOR GENERAL, HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC, ACCOMPANIED BY: CHRIS GREER, ASSISTANT INSPECTOR GENERAL FOR AUDIT

Mr. CONNORS. Thank you very much. I'm pleased to appear before your committee to discuss the management deficiencies at

HUD. Accompanying me today is Chris Greer, our Assistant Inspector General for Audit.

Since the 1989 revelations of the HUD scandal, HUD has moved to restore its tarnished image. While it is still an agency in need of significant management reforms, progress has been made.

In the area of ethics, HUD has established an Office of Ethics and instituted lobbying reforms. Costly and wasteful programs such as multifamily coinsurance, retirement service centers, and section 8 moderate rehabilitation have been terminated.

Financial management has benefited from the creation of an Information Resource Management Board, the resolution of many long-standing audit recommendations, and the preparation of financial statements.

This committee and its Subcommittee on Housing and Urban Affairs, has played an active role in the aftermath of the HUD scandals to analyze and identify the problems with HUD programs and practices.

Under the bipartisan leadership of Senators Graham and Mack, several oversight hearings were held to pinpoint potential solutions for its management weaknesses. The oversight continued last year, and we are extremely pleased that you are holding with that practice with a series of hearings over the next few weeks.

Despite this progress, much remains to be done to eliminate major problems confronting the Department. These problems are significant obstacles to the effective and efficient delivery of HUD programs. While these are not easy issues to correct, relatively little progress has been made in many of these areas since this office first reported them 1 year ago.

Mr. Chairman, we have prepared for you today an update of some of the previous work we had done on the major and most significant management problems at HUD from the perspective of our office. We shared these concerns with the transition team late last year and have been active participants with Secretary Cisneros and his staff in the early stages of his reinventing HUD efforts.

We are very encouraged by the level of personal attention the Secretary has given to management issues and are convinced that success will come only with that type of attention on an ongoing and comprehensive basis.

In addition, the Secretary will need the strong support of Congress and OMB in implementing the types of changes that will assure long-term solutions. Many of the management problems at HUD are interrelated and it becomes apparent rather quickly that there is a great deal of overlap.

Our full statement that was submitted for the record provides an update of the 10 most significant problems as first outlined in our semiannual report to the Congress last year. The chart on page 4 of that statement summarizes the 10 problems and detailed discussions of each are contained in the subsequent sections of that prepared statement.

As Secretary Cisneros said earlier, there are three main systemic problems and they deal with human resources, data systems, and the management control environment.

In addition, there are seven specific programmatic problems that are detailed in that statement. The correction of these problems

will require both the Congress's and senior management's unrelenting focus on the issues, as well as their commitment to addressing the underlying causes. I am encouraged that in the first few weeks at HUD, the Secretary asked for and received a briefing by our office on major departmental problems and ways to solve them. He has made it clear to senior staff that he expects substantive corrective action on these problems and has tasked the Deputy Secretary with ensuring that takes place.

Earlier this morning, I heard him reaffirm that commitment to this committee. Nonetheless, given the budgetary and staffing constraints that have been imposed upon the Department, the Secretary faces a formidable task. In my opinion, the Department still lacks the necessary staff and resources to achieve its mission effectively. However, changes in the way the Department conducts its business, which is an expected outgrowth of reinventing, could address this concern.

We will work closely with the Secretary and his management team to seek ways to improve the effectiveness and efficiency of departmental programs and operations. This concludes my remarks and we will be glad to answer any questions you may have.

Senator SARBANES [presiding]. Well, thank you very much, Mr. Connors.

Let me ask you sort of a broad question. You may not be able to give a very specific answer to it. If the Department were to make a major effort to move out some of the resources that are in the pipeline, if it said to the local and State governments and the private sector, we're going to give faster approvals. We're going to make it easier for you. We're still going to make a judgment, but we're not going to run you through a whole series of dot the I's and cross the T's requirements.

What's the risk of abuse? I'm trying to weigh now the need to move substantively some programs so things start happening. There is some money available for some of this. Break through some of the rigidity.

This might be done ahead of or concurrent with instituting some of these upgrade in management systems. They're going to take a while to do, obviously. They're not simply going to happen overnight. And if you delay all movement of resources, or a lot of it, until that's completed, you're not getting things done out there.

Now, do you think the Department, with this new leadership, the new attitude, we've passed legislation giving more responsibility to the State and local levels, that we can move on that track and guard ourselves against abuse?

Mr. CONNORS. I believe, based on our experience, the Department can move forward in some of those areas.

Senator SARBANES. Let me give you a classic example. I think that with a change in leadership in some of these field offices, and putting people in to head them up who really know the business and are prepared to make some tough judgments, you can start moving some things. Now you always run some risk, but that's inherent in the operation. But I don't think you're escalating the risk. In fact, I think you may be diminishing the risk.

Mr. CONNORS. Senator, you may be correct. However, I think one of the big dilemmas at HUD is, nobody knows what that risk is.

And until that risk is assessed and those local field offices know what the risk is of putting that money out there, or know the risk of its participants, whether they be mortgagors, lending institutions, or public housing agencies, I think that's the key. Know what the risk is out there so that, when the money does get out there, any abuse can be minimized. Only target your limited resources at those high-risk areas.

Senator SARBANES. Which of the programs do you think you could push resources into that would have the least risk of abuse? Public housing modernization? Does that have a high risk of abuse?

Mr. CONNORS. Public housing management, in general, has a high risk, but, again, it's not every public housing agency. Many of the PHA's that are out there manage their programs very well and very effectively.

Senator SARBANES. Well, maybe you ought to put the modernization money there.

Mr. CONNORS. I would agree with that and I think that would be something that the Department needs to determine and whether or not regulations that currently exist would allow that money to be put there and to be spent effectively.

Senator SARBANES. How about some of the other programs? Do you have any views on those?

Mr. CONNORS. You mean as far as getting money, resources—

Senator SARBANES. Well, suppose you're looking and you say, we want to get results. We want to get end product results. You've got all these different range of programs and you sort of then say, well, now, which ones could we sort of energize the resources, intensify the movement of resources where we could probably get results with the low level of possibility of abuse—there might be some program where I said to you, well, let's put more money into that program. You say, now wait a second. That's the one program on the basis of the work I've done, you might reply to me, that I think before you put more money in there, you'd better make some fundamental changes in how that program works.

There might be some other program where you say, well, yes, that program works pretty well and generally, it's functioned pretty well. And I think if more money flowed into that program, you probably would get good results. Can you make those distinctions or not? Do you have a basis on which to make some of those evaluations?

Mr. CONNORS. No, sir, I don't. I'm not an advocate of just putting resources out there, unless we know what the risks are of doing it.

Senator SARBANES. That's what I'm trying to ascertain from you, yes.

Mr. CONNORS. Well, some of the programs overall are run effectively. For example, the Community Development Block Grant Program is overall an effective program. We've had some problems with it based on our audits having to do with the reporting mechanisms of providing results. Certain aspects of that program, such as economic development loans and who are actually getting those loans; whether or not the program is always benefiting low- and moderate-income persons, which I believe was the congressional intent.

Once those items are addressed, the program is an effective program. But grantees, certain grantees have misused that program in the past. I don't know if that answers your question, but that's my view on a specific program where HUD puts quite a bit of money each year, and there is some flexibility out there for the community.

Senator SARBANES. Are there any of the housing programs that you think noticeably work better than others?

Mr. CONNORS. Well, as far as housing goes, the single-family insured program, the direct endorsement program, overall, is a pretty well managed program. We've recently done some audit work on that program. It's well monitored. That's a program that seems to be working relatively well.

Senator SARBANES. OK. Any others?

Mr. GREER. I believe that, based on our experience with the homeless programs, over the last 2 years, most of those programs have been administered quite well by the grantees and the non-profits.

I think we would encourage that you do make the locals responsible for the administration of a lot of our programs. I think what John was getting at is you need to have a system where you have accountability at the local level. HUD needs to develop some performance measures so that you can identify those areas and those people that are not using your money well, and then when they don't, you don't allow them in the program or you look elsewhere for good administrators. And that's the key to this whole thing, we believe.

I guess what we're saying is most every program can work well, as long as the management systems and the data systems are there to help HUD monitor and measure what's going on. That is the results.

Senator SARBANES. OK. Well, I see my time is expired. Thank you very much.

The CHAIRMAN. Do you have anything else, Senator Sarbanes?

Senator SARBANES. No, I think I've covered it. I appreciate what is obviously a very carefully prepared statement to the committee and, in fact, this will be very helpful to us as we pursue this matter.

We're going to be holding some hearings in the subcommittee which will address specific parts, specific aspects of what are in your statement. It will be very helpful to us to have this to help form the basis for that questioning. We appreciate it very much.

Mr. GREER. We'll help in any way we can, Senator.

Senator SARBANES. All right. Thank you.

The CHAIRMAN. Let me echo and underscore those comments from Senator Sarbanes.

In your testimony, you highlighted the ten most pressing problems that the Department is facing. Can you put at the top of your own list the top three problems that should be addressed to minimize the possibility of financial losses to American taxpayers?

Mr. CONNORS. I believe the top three problems are the systemic problems that Secretary Cisneros has referred to earlier. Those three conditions are primarily the causes of the seven specific programmatic problems that follow.

It becomes very difficult to say monitor HUD's multifamily loan portfolio if it doesn't have a data system that can provide current and timely information on those projects in that portfolio. So those three problems are the key ones that need to be addressed.

The CHAIRMAN. You sat here during all of the Secretary's presentation. Now you really function as an Independent Inspector General, do you not?

Mr. CONNORS. Yes, I do.

The CHAIRMAN. And that gives you the freedom not only to go in and look at these issues and give us an independent professional assessment, but I assume that same degree of independence applies with respect to your ability to think about these sort of large structural and policy issues. Does the plan that the Secretary has laid out today sound to you like a plan that will address in a direct form the kinds of issues you have raised in your work?

Mr. CONNORS. Yes, sir, I think it does. Let me just embellish on that a little bit.

I've been with the HUD IG's Office a little over 20 years. I've heard a lot of plans in that 20 years. And I've seen a lot of them fail. The plan sounds good. It's whether or not it's implemented and carried out, will be whether it works.

The CHAIRMAN. Well, aren't there two parts to it? That's certainly one. You can have a great plan. If it isn't carried out, it doesn't mean much. On the other hand, you can have a lousy plan and carry it out and that doesn't help you much, either. So leaving aside for the moment the degree to which it will be carried out, we've had the pledge of the Secretary and I think he's serious and he's got a serious team with him.

Let's just talk about the design of the plan itself. Does that plan, if carried out, look like a plan that will work and make a big improvement?

Mr. CONNORS. Yes. What he's talked about with regard to the systems, the controls, and at least coming up with a method of establishing capacity or resources, I think that is a reasonable plan.

The CHAIRMAN. What would you add to it?

Mr. CONNORS. I'm not sure I would add anything to it at this point because I think we're still dealing conceptually. We haven't seen all the details of that plan. For example, one of the things that we've talked about before is the organizational structure of HUD. Recently, the Secretary asked and we furnished some thoughts, this whole reinvention is how do you serve your customers better? That's part of it.

It's our view, the view of our office, that to serve its customers better, HUD's organizational structure of these field offices and possibly their locations doesn't necessarily serve its customers, whether they be PHA's or grantees, the most effective. So, therefore, this plan, I think, needs to be embellished as to how it's going to address that issue. The fact that it's on the table, the fact that I think the Secretary was so strong in his commitment this morning and has even breathed the word accountability, is refreshing.

The CHAIRMAN. Is there any part of the plan that's there that you think ought not to be there?

Mr. CONNORS. No. At this point, I think the conceptual framework of that plan is adequate to start moving forward.

The CHAIRMAN. Well, I wanted to ask you both those questions, as to whether there was something material that you would add and, by the same token, then, anything in there that you thought really could or should be deleted. And it sounds to me like, if I take your two answers together, that the plan looks like a pretty reasonable plan moving in the right direction and problems that you yourself have helped identify. Is that a fair statement?

Mr. CONNORS. That's correct.

The CHAIRMAN. OK. I'm going to have some more questions for you for the record and there will be other members who do as well. But I thank you very much for your work. I want to again underscore what Senator Sarbanes said in thanking you for the analysis that you have done, and we'll make good use of it.

Mr. CONNORS. Thank you.

The CHAIRMAN. Thank you. We'll now have the rollcall vote on the nomination of Kenneth Brody to be President of the Export-Import Bank.

The Clerk will call the roll.

The CLERK. The Chairman.

The CHAIRMAN. Aye.

The CLERK. Mr. Sarbanes.

Senator SARBANES. Aye.

The CLERK. Mr. Dodd.

Senator DODD. Aye.

The CLERK. Mr. Sasser.

Senator SASSER. Aye.

The CLERK. Mr. Shelby.

Senator SHELBY. Aye.

The CLERK. Mr. Kerry.

Senator KERRY. Aye.

The CLERK. Mr. Bryan.

Senator BRYAN. Aye.

The CLERK. Mrs. Boxer.

Senator BOXER. Aye.

The CLERK. Mr. Campbell.

Senator CAMPBELL. Aye.

The CLERK. Ms. Moseley-Braun.

Senator MOSELEY-BRAUN. Aye.

The CLERK. Mrs. Murray.

Senator MURRAY. Aye.

The CLERK. Mr. D'Amato.

Senator D'AMATO. Aye.

The CLERK. Mr. Gramm.

Senator GRAMM. Aye.

The CLERK. Mr. Bond.

Senator BOND. Aye.

The CLERK. Mr. Mack.

Senator MACK. Aye.

The CLERK. Mr. Faircloth.

Senator FAIRCLOTH. Aye.

The CLERK. Mr. Bennett.

Senator BENNETT. Aye.

The CLERK. Mr. Roth.

Senator ROTH. Aye.

The CLERK. Mr. Domenici.

Senator DOMENICI. Aye.

The CLERK. 19 yeas, Mr. Chairman.

The CHAIRMAN. It's a unanimous vote in favor. The committee will stand in recess.

[Whereupon, at 12:15 p.m., the committee was recessed.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

OPENING STATEMENT OF SENATOR RICHARD H. BRYAN

Mr. Chairman, I commend you for holding this hearing today on the management of the Department of Housing and Urban Development and for inviting the distinguished Secretary, Henry Cisneros, to testify on his plan for "Reinventing HUD."

In April 1989, the HUD Inspector General released a report which shed light on abuses and mismanagement that mired the Department in scandal. I was a member of the Subcommittee on HUD/Mod Rehab Investigations, which was established in 1990 to carry out a review of Departmental operations. We discovered that HUD lacked the adequate staffing, internal controls, and proper monitoring to assure that future waste, abuse, and mismanagement did not occur.

We have taken great strides toward elimination of the corruption in HUD programs, however, much more needs to be done to get housing to those who need it efficiently and effectively. I have heard the Secretary say that he has uncovered a "gotcha" mentality at HUD. "Gotcha" means that rather than working together with those HUD assists to deliver important services, HUD tries at every step to catch violations of regulations.

There is a tremendous price, both human and financial, for poor internal controls, outdated data systems, and inadequate staffing. For example, we understand that an important function such as FHA program evaluation is being done by four separate offices that do not communicate with one another. Why not consolidate and shift personnel to other critical functions? The question remains how to best manage the workforce.

Unfortunately, we operate in a climate of scarce resources and large increases in personnel are unlikely. We must search for creative solutions and innovate ways to boost morale and improve efficiency. I look forward to working with Secretary Cisneros to help give him the tools to reinvigorate the staff and systems at HUD.

PREPARED STATEMENT FOR SENATOR ALFONSE M. D'AMATO

MAY 4, 1993

Mr. Chairman, I am pleased that we are holding this hearing to discuss management issues of the Department of Housing and Urban Development (HUD). Once again, I welcome Secretary Cisneros to the Committee and look forward to hearing his testimony.

In the Spring of 1989 HUD was plagued by reports of waste, fraud, abuse, and mismanagement. Secretary Kemp made significant progress in turning around a troubled Agency hindered by outdated and inadequate management systems and internal controls. Strict limits have been placed on discretionary funding, rules have been established to assure that HUD funds are allocated through open competition based on clear and objective criteria, a comprehensive ethics program to help ensure that all programs are run fairly and in the best interest of the taxpayer and the homeowners and residents they serve has been implemented. These reforms have been set in motion at the same time that HUD has been responsible for addressing the housing needs of millions of families served by more than 3,000 public housing authorities, providing Community Development Funds to several thousand communities and implementing the first housing bill in a decade.

A number of significant management problems have been identified by HUD's Office of the Inspector General. These range from ineffective data systems to New Program Implementation. This Committee has passed two major housing bills since 1990 which HUD must implement and run. Both require staff resources to write the regulations and handbooks, train field staff, and set up administrative systems. Not only do the newly created initiatives create a large burden to HUD, but to our States and Cities who must work with HUD to implement these programs.

HUD administrators a myriad of complex programs which are sometimes redundant and conflicting. I applaud the Secretary's pledge to accelerate efforts to streamline the process for getting money out the door and into the hands of the people who it is intended to help. With HUD's commitment to work with state offices to implement the changes made in 1990 and 1992 the backlogged money should be distributed quickly.

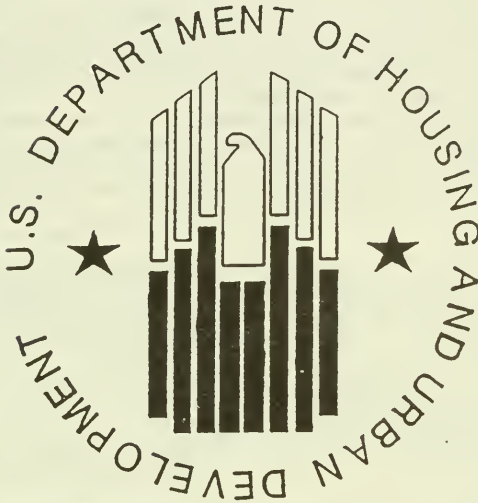
I would like to express my particular concern that the actuarial soundness of the FHA Insurance Fund be maintained. Careful consideration went into Congressional efforts back in 1990 that were aimed at preserving the FHA program by protecting the safety and soundness of the Insurance Fund. In 1992 Congress rolled back a HUD regulation limiting financing of closing costs, which had been intended to increase borrower equity. According to the most recent Price Waterhouse report the recent liberalization of closing cost financing is projected to have a small negative

effect on the value of the fund. We cannot and must not further reverse this commitment. Without the FHA program million of Americans would be denied access to affordable home ownership. We must keep it healthy.

Secretary Cisneros has pledged to "reinvent HUD." I am interested to hear his ideas and suggestions and look forward to working with him to continue the healing process at HUD. We must ensure that the Federal Agency responsible for providing decent, safe and affordable housing for millions of Americans is well run and has the capacity to fulfill it's mission.

**STATEMENT BEFORE THE SENATE SUBCOMMITTEE
ON HOUSING AND URBAN AFFAIRS**

**Washington, D.C.
May 4, 1993**



by

SECRETARY HENRY G. CISNEROS

INTRODUCTION

Mr. Chairman and members of the committee, I am pleased to appear before you to discuss the management of the Department of Housing and Urban Development. I have no higher priority than to straighten out the disastrous systemic management problems which have been well documented by HUD's Inspector General, the General Accounting Office, contracted studies, and internal HUD studies. It has taken years—decades—for HUD's systems to get in this mess. It will take years to get out.

I want to focus on these problems because solving them will bring real results. Talk about systemic management deficiencies sounds technical but, when data is unavailable or unreliable, it can keep a low-income family from getting rental assistance to move into an apartment that fits its needs. Or the homeless person sleeping in an alcove can't get into a shelter because there aren't enough beds. Or kids in the poorest part of town won't have a park to play in because the funds for it are locked in the pipeline.

HUD's management problems not only waste taxpayers' dollars and deny people decent shelter or a chance to get ahead, they have contributed to a sense of frustration and skepticism among the staff. To achieve meaningful management reform, we have concluded that we must address the attitudinal and behavioral culture of the Department, that we must "reinvent" HUD.

There are three aspects to our reinvention of HUD. First, we're redefining our mission, determining how we can best help communities and families meet their housing and economic development needs in the reality of the 1990's.

Second, we're emphasizing our role as a change agent. HUD has been described to me as at best irrelevant, at the worst an impediment. We're going to transform HUD into an enabler, a facilitator, a force for positive change working in partnership with communities.

Finally, "Reinventing HUD" actively involves everyone in the Department in helping to meet people's needs, getting everyone invested in our mission. We're looking at what people do and how they do it. Frankly, Mr. Chairman, two years from now, I expect there will be a large number of people at HUD who will not be doing what they are doing today.

Reinventing HUD is essential to our management reform efforts because, unless we link the staff's conviction with the Department's mission, there is little chance that our management reforms will succeed and endure.

Our management reform effort is methodical, logical, intensive, and primarily concentrated in three categories: deficiencies in resource management, data systems, and internal controls.

DEFICIENCIES IN RESOURCE MANAGEMENT

Numerous audits have found that HUD has not had adequate staffing, training, and travel resources to prevent fraud, waste, and abuse in its programs. These audits have found that HUD does not effectively monitor the many public and private organizations that participate in HUD's programs. Additionally, they have cited HUD for lax monitoring of its contractors, an essential and growing component of the Department's workforce.

Other audits, such as GAO's 1984 management study, have found that HUD lacks an effective strategic planning process to guide decisions on how many resources are required and how they should be allocated.

Finally, both outside observers and HUD staff have pointed out that the deficiencies in HUD's data systems prevent the effective use of the Department's staff resources.

RESOURCE MANAGEMENT ACTIONS

Reinventing HUD

Our reinvention of HUD will have a direct and positive impact on each of these deficiencies. Let me start by explaining what I mean by "reinventing HUD." President Clinton and Vice President Gore are firm believers in the notion of reinventing—rethinking—how Government provides the services that the American people need and want. What I am doing at HUD—because I believe it is essential—is empowering the HUD managers and staff to work with me, to think with me, and to create with me a new vision for HUD—a new, more effective way to help the American people build their communities. We are looking at HUD from top to bottom, identifying programs, processes, and organizational relationships that need to be changed so that the managers and staff can do their jobs better. The employee

union is fully involved in this effort, and I meet with them regularly because they are a great resource for energy and ideas.

We already have organized and held retreats throughout the Department. So far, we have described HUD's mission as being: *to make urban America a partner in the nation's economic progress by helping people create communities of opportunity*. We have identified three themes, or values, which pull together what we stand for at HUD: a commitment to the spirit of community; a commitment to economic lift and creating a ladder of opportunity; and a commitment to confront the behaviors that ravage our society—racism and the self-destructive patterns of life. Our objective is to incorporate these values in our everyday work.

We want to transform HUD from an isolated collection of programs and people into a responsive, coordinated, motivated provider of community, economic, and housing resources.

After the initial round of "Reinventing HUD" retreats, we will decide which of the ideas that have been generated are feasible and appropriate, and establish some priorities. At that point—within 6–9 months—HUD will have a sound, well-conceived strategic plan fully supported by the HUD employees because they will have shared in its conception.

The strategic plan will be key to resolving many of HUD's resource management failings, will drive our administration of HUD's 1994 appropriation, and the development of the FY 1995 budget. It will be the basis for organizing our workforce and allocating resources and help us develop results-oriented performance measures which will enable us to evaluate program and organizational effectiveness and individual performance. Priorities will be established based on the plan, which will be the yardstick we use to measure HUD's capacity. All of this will flow from reinventing HUD.

Capacity

I just mentioned HUD's capacity, and I want to take a minute to talk about the notion of "capacity" a little more. Many reports have indicated that HUD doesn't have enough staff to do its job. I have to tell you that I do not know, for certain, whether that is true. What I do know for certain is that, presently, HUD lacks the *capacity* to carry out its mission effectively. To me, capacity is much broader than just the number of staff we have. In fact, we've identified five basic factors—all of which have an impact on capacity: 1) number of staff—and here, I would include contractors, 2) processes, 3) skills, 4) technology and systems, and 5) organization.

Deficiencies in any one of these factors will have a negative effect on capacity. Inflating one factor—adding more staff, for example—probably cannot offset a problem in another factor—say, organization. We have to address the factor that has the deficiency. If we aren't organized properly, you could double the HUD staff and still have a capacity problem, and I already know that HUD's organization is inappropriate for meeting the challenges of the 90's.

I have challenged my staff to come up with a better methodology for determining the level of resources that HUD needs to carry out its mission. And when I talk about "resources," I mean both HUD staff and the contractors that perform work on HUD's behalf. I believe that we need to view contracted services and the dollars associated with them as an essential component of HUD's workforce—a Total Force Management approach to resource analysis and allocation.

Training Task Force

Earlier, I alluded to the fact that training at HUD has been deficient. It is one of my highest priorities to change that. I have established a Training Task Force, co-chaired by the local union president and the Deputy Director of the Office of Personnel and comprised of managers and staff from Headquarters. I charged this group to come up with a strategy for reshaping HUD's training program. Their report is due to me soon.

Contracting Review

We are participating in the Office of Management and Budget's contracting review. I have asked the Assistant Secretaries to assess whether or not they have adequate staff to monitor their contractors, to ensure that HUD is not hiring contractors to perform inherently governmental functions. We will report the results of this review to OMB by June 30; and based on the outcomes of the review, we will take appropriate action.

Other Activities

HUD is participating in Vice President Gore's National Performance Review and three top HUD managers are on his task force. I am looking forward to the outcomes of that particular initiative since it meshes well with reinventing HUD. A

study soon to be conducted by the National Academy of Public Administration also should produce useful suggestions for improving accountability at HUD.

All of these planned initiatives are aimed at improving what we do and how we do it. As an outcome, I fully expect to be able to improve HUD's capacity within the resources already available. If—after we have taken steps to address the other capacity factors—I determine that additional staff are needed to carry out HUD's mission, I will ask Congress for more resources.

DEFICIENCIES IN DATA SYSTEMS

The second serious problem I would like to discuss, Mr. Chairman, is existing deficiencies in our data systems. Data systems that are antiquated and not integrated continue to cripple the effective management of HUD's programs, diminishing its ability to provide quality service to its clients. These deficiencies surface in three areas. First, a number of key program functions are not automated and continue to be performed on a manual basis. For example, HUD staff manually reviews payment vouchers for Section 8 assisted housing disbursements. To ensure the timely remittance of the rent subsidies, vouchers are reviewed after the disbursement has been made to the owner, increasing the potential misspending of program funds. With enhanced technology, HUD staff can devote more time to monitoring assisted housing projects to ensure clients have safe and decent housing.

Second, since many of HUD's systems do not share data, duplicate data is maintained in multiple systems, and the data is not always consistent from system to system. As a result, the Department cannot always provide its clients with timely and accurate information. This also can retard the processing of grant applications and delay the release of funds to recipients.

Finally, as a result of inaccurate and incomplete data in its systems, basic information, such as the number of tenants under Section 8 contracts, is not readily available to program managers. This hinders HUD's ability to manage its programs and provide quality service to such constituents as subsidy recipients, Housing Authorities, and grantees—as well as hindering our ability to keep the Congress informed.

DATA SYSTEMS ACTIONS

The current systems integration effort is faced with problems. There is serious doubt among HUD managers about the viability of the existing plan to create nine integrated systems and have them all up and running by September 30, 1998. The CFS/TRACS project has fallen behind schedule, and target dates for the other systems may be unrealistic. The Department's systems integration plan needs to be reviewed and updated to reflect systems development activities over the past year and a half.

It is clear to me that we must apply the lessons learned from the CFS/TRACS project to the rest of the systems integration effort if we are to get back on track. Here is what we must do:

(1) The effort must have the total support and involvement of top management—the Assistant Secretaries and Deputy Secretary Duvernay and me. That involvement has to continue throughout the entire project.

(2) There has to be a detailed plan—laid out at the very beginning—which carefully identifies the objectives and benefits of the new system and which documents each step, along with the resources needed to accomplish it, and realistic deadlines. This plan must be based upon the Department's new strategic plan I mentioned earlier.

(3) Program managers, both from the Field and Headquarters, have to have ownership of each specific project from the outset. They have to direct the objectives, the expected outcomes, and the steps to be taken.

(4) Progress must be tracked and problems must be identified and resolved immediately.

(5) Finally, sufficient resources—both human and financial, and sufficient in both quantity and quality—must be allocated to the project to ensure its success.

CFS/TRACS lost precious time and wasted resources because the project was not sufficiently well-planned in advance and did not have the full support of the program managers. We don't want to repeat those mistakes.

To make sure that the systems integration effort has—and keeps—the involvement of top management, I have established a new management organization for systems integration, a Task Force on Systems Integration, chaired by Deputy Secretary Duvernay.

DEFICIENCIES IN INTERNAL CONTROLS

The third serious problem I would like to discuss, Mr. Chairman, is the deficiencies in our internal controls. With HUD's problems in resource management and data systems, it is not surprising that internal controls have suffered. The "HUD scandals" of four years ago revealed the extent to which the Department's internal controls were ineffective. The scope of HUD's internal controls problem is illustrated by the fact that I have inherited 40 unresolved Material Weaknesses in various stages of completion—12 open with action plans in place and 28 others completed awaiting an independent verification review to ascertain that the problems have in fact been corrected. Still more material weaknesses continue to be identified by the IG. Secretary Kemp made a good start. He acknowledged these problems and laid the cornerstone for management and financial improvements; but much more must be done.

INTERNAL CONTROLS ACTIONS

The weaknesses of HUD's internal control program are well documented. The real problem is that HUD relies on the IG and contractors to bring the serious problems to light, when managers should be doing this themselves. We need to educate and hold managers accountable for identifying risk and for taking action to reduce or control risk. I believe managers do not understand or value HUD's current internal control program because it is process-oriented—not results-oriented. We need to develop an internal control program that is understandable, meaningful, and valuable to managers. This problem is not unique to HUD; OMB has been struggling with this same issue for years, in an effort to simplify the process and make it more useful to managers.

While we have taken some steps to train HUD managers on the internal control program—in fact, some 250 managers have been trained since February—we need to address the root cause of the program's lack of effectiveness. I have designated a Management Control Executive Committee, headed by Deputy Secretary Duvernay, to redirect and oversee the management of HUD's internal control program. The six program problems identified by the IG as being our "most serious" will be our top priorities: Multifamily housing loan servicing, FHA asset management, Section 8 budgeting and accounting, public housing management, CDBG program benefits, and GNMA asset management. I expect the Management Control Executive Committee to set the tone that managers should be rewarded—not punished—for identifying and reporting control problems and for taking appropriate action to solve those problems.

Mr. Chairman, I have discussed three major systemic problems, but the single biggest problem we have at HUD—a kind of mushroom cloud obliterating housing's near horizon—is the explosive growth in the FHA-insured multifamily inventory. In 1989, HUD owned about 9,300 units. By the end of this past March, HUD's inventory had grown to 180 multifamily projects and 28,000 units. Disposition of *existing* HUD-owned and foreclosure inventory will cost an estimated \$2 billion. Disposition is further complicated by the statutory requirement to attach a 15-year Section 8 project-based certificate to each unit we sell. The cost implications of this are staggering, and I intend to propose legislative alternatives to this requirement in the near future.

But, HUD's inventory of owned projects and projects in foreclosure is not only large, it is growing. By the end of March, HUD-held notes accounted for 2,450 projects, with 362,000 units, and an unpaid balance of \$8 billion.

Regrettably, much of this property is poorly managed, exposing the government to financial risk and imposing costs on the surrounding neighborhoods by driving down rents and causing disinvestment. Poor management also frustrates our efforts to meet the housing needs of low-income families by allowing properties to deteriorate and vacancies to increase. Every vacant unit means a low-income family is not getting the housing it needs.

We have a gravely serious problem with multifamily housing at HUD, and I'm going to need your help to solve it. There is no easy way out . . . no "super computer" solution . . . no *deus ex machina* . . . for this or any of the problems I have touched on. We should not minimize the problems of this agency. It is going to take my effort and your effort to remake HUD as a strong partner of communities and people who desperately need our help.

Mr. Chairman, improving HUD's management systems will be a priority for the four years I am Secretary. This year, I will focus on problems that require legislative relief and will report to you periodically—formally or informally—so that together, we can achieve the structural and institutional change that will enable HUD to work effectively for the people we serve.

CONCLUSION

The task ahead is an awesome challenge. Planning is the key, and that's why we have forged ahead to reinvent HUD, so we can move forward in a well-considered, positive direction. I think we're off to a good start; we have a team that is willing and eager to reinvent HUD for the better. A strong HUD can make a real difference in America; and I intend to help make HUD a catalyst for positive change in the nation's economic progress by helping people create communities of opportunity.

STATEMENT OF JOHN J. CONNORS

DEPUTY INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ACCOMPANIED BY CHRIS GREER, ASSISTANT INSPECTOR GENERAL FOR AUDIT

Mr. Chairman and Members of the Subcommittee, it is a pleasure to be with you today to discuss certain management practices at HUD. This Subcommittee played an active role in the aftermath of the "HUD Scandals" to analyze and identify the problems with HUD programs and practices. Under the bipartisan leadership of Senators Graham and Mack, several oversight hearings were held to pinpoint potential solutions for the management weaknesses. This oversight was continued last year and we are extremely pleased that you are continuing that practice with a series of hearings over the next few weeks.

Mr. Chairman, we have prepared for you today an update on some previous work we have done on the major and most significant management problems at HUD from the perspective of the Office of Inspector General. We shared these concerns with the new administration during the transition period and we have been active participants with Secretary Cisneros and his staff in the early stages of his "Reinventing HUD" efforts. We are very encouraged by the level of personal attention the Secretary has given to management issues and we are convinced that success will come only with that type of attention on an ongoing and comprehensive basis. In addition, the Secretary will need the strong support of Congress and OMB in implementing the types of changes that will assure long-term solutions.

Many of the management problems at HUD are interrelated and it becomes apparent rather quickly that there is a great deal of overlap. We have prepared our statement in a manner that provides an update on the ten most significant problems as first outlined in our Semiannual Report to Congress last year at this time. Thus, the chart that follows summarizes the ten problems, and detailed discussions of each are contained in the following sections of the statement. The problems are divided into three systemic issues that pervade the Department and affect virtually every HUD program and activity and seven programmatic weaknesses that need special and immediate attention.

SYSTEMIC ISSUES

1. Data Systems - HUD does not have efficient, effective, and integrated financial management systems that can be relied upon to provide relevant, timely, accurate, and complete information as a basis for sound program oversight and management decision making.

2. Resource Management - HUD methods of formulating resource needs and utilizing resources provided are inadequate for ensuring an efficient and effective use of resources towards maximizing program results and minimizing program risk and susceptibility to fraud, waste and abuse.

3. Control Environment - HUD management needs to establish an effective Management Control Program to raise control consciousness and emphasis among its staff, and provide an on-going process for evaluation, improvement and reporting on HUD's internal control and financial management systems.

PROGRAM ISSUES

4. Multifamily Housing Servicing - HUD Insured Multifamily Housing project owners and management agents continue to violate their HUD Regulatory Agreements by misusing or diverting project assets and income from project operations, which adversely impacts HUD and intended low- and moderate-income program beneficiaries through increased loan defaults and physical deterioration of projects.

5. FHA Asset Management - Management controls over HUD's multi-billion dollar Single Family and Multifamily property management and disposition activities are not adequate for preserving housing and safeguarding the financial interests of the government.

6. CDBG Program Benefits - HUD management needs to improve controls for ensuring that CDBG grantees fund eligible activities and provide the required level of activities for the benefit of low- and moderate-income persons.

7. Public Housing Agency Management - Significant continuing problems exist in the management and operation of public housing agencies, precluding HUD from achieving its goal of providing decent, safe, and sanitary dwellings for low-income families.

8. GNMA Contract Management - With a limited staff and history of poor procurement and contract administration practices, GNMA has limited assurance that its extensive contract services are properly performed, and that claims for services are reasonable or valid.

9. Section 8 Budgeting and Accounting - HUD does not have an adequate system for tracking and controlling billions of dollars of long-term Section 8 subsidy commitments, resulting in millions of dollars of incorrect or misdirected subsidy payments and difficulty in establishing program funding needs.

10. New Program Implementation - New programs enacted by recent legislation pose a major challenge to HUD management to timely develop and implement plans for procedural, systems, staffing and other requirements for an efficient and effective program implementation.

SYSTEMIC PROBLEMS

Despite considerable congressional and management attention to addressing the programmatic problems collectively labeled *The HUD Scandals*, HUD programs are still at considerable risk of abuse and loss because of:

- Delays in developing and implementing adequate integrated financial management data systems;
- Insufficient staff levels and resource management problems; and
- A lax control environment that fails to manage risks and hold managers accountable for performance.

These three systemic problems are discussed in greater detail in the following sections.

Data Systems

Problem

HUD's automated data systems preclude effective control and management of its wide range of large, complex programs. HUD currently has over 105 separate, poorly integrated, often duplicative, and generally unreliable, mainframe data systems.

Background

HUD's programs entail \$379 billion of FHA Insurance in Force; \$14.1 billion in property and other assets; \$422 billion of GNMA Mortgage-Backed Securities; \$100 billion in long-term housing subsidy commitments; billions of dollars of outstanding grant commitments; and an average of \$25 billion in annual budget authority. Effective data systems are critical to management of programs of this magnitude.

HUD's systems deficiencies stem primarily from a lack of overall management and long-range planning. Historically, short-sighted, quick-fix decisions, heavily impacted by budget constraints, have been all too common. Systems development has been administered from a parochial sponsor/user perspective, meaning that the systems were created for specific users along organizational rather than program lines. This allowed program and accounting staffs to build separate and often duplicative systems, rather than a more efficient integrated system serving everyone's needs. In addition, staffing constraints and lack of a sense of ownership result in poor support by the largely autonomous regional and field officers for these Headquarters-directed systems. Moreover, the systems often did not satisfy management needs, did not provide adequate control, and lacked credibility. System documentation was inadequate, audit trails were incomplete, security considerations were lacking, and up-front cost-benefit analyses or feasibility studies were nonexistent.

Current Status

HUD's Chief Financial Officer (CFO) and five program Comptroller positions were created in 1990 to provide a framework for sound financial management. However, full establishment of the CFO and Comptroller functions has been significantly delayed, and HUD's management of its financial management improvement operations still needs much improvement.

Although the CFO function has responsibility for systems integration, it lacks the necessary authority, expertise and resources to effectively carry out its responsibilities. The CFO did oversee the contract for the development of a 5-year systems integration plan, but progress on the plan has been slow. Further, we are concerned about this growing dependency on contractors. HUD is at the point of using contractors to oversee other contractors, who are advising on design projects being developed by yet a third tier of contractors. This process is inefficient and costly in both the short and long run. Permanent in-house capacity would likely have no net effect on HUD's overall budget, as personnel costs would be off-set by reductions in contracted services.

HUD management is also not fully involving its resident program expertise in the systems development process to ensure the new systems will meet program needs. For example, despite the considerable cost and effort already spent developing the CFS/TRACS System for the Section 8 Program, poor planning has led to delays and data quality problems that will require additional cost and effort to correct. There is an inherent risk in designing and developing systems outside of the user's control, and placing excessive reliance on contractors who lack HUD program knowledge.

What Needs To Be Done

Every effort should be made to quickly marshal the resources needed to correct HUD's systems deficiencies. This will require the support and cooperation of both OMB and the Congress.

HUD identified \$63 million in systems development needs for Fiscal Year 1993, but budget constraints limited funding to \$33 million. While OMB has committed to \$100 million for financial systems integration over the next 3 years, roughly \$33 million a year is simply insufficient to fund normal enhancements and new program systems as well as the major overhaul required by the integration effort. For FY 1991 and 1992, HUD's systems development budget was \$37 million and \$33 million respectively, exclusive of systems integration. For FY 1993, that figure is down to \$21 million. In FY 1994, that figure is down to \$16 million.

Secretary Cisneros and his management team are currently assessing HUD's financial management structure, including the role of the CFO in fulfilling HUD's systems development needs.

Resource Management

Problem

HUD does not have sufficient staff to carry out its operations as currently structured. In addition, it does not have a plan for either acquiring additional competent staff or restructuring operations based on the resources it has. Of special concern is the increased risk of fraud and abuse as HUD shifts much of its program delivery functions to others, without the level of monitoring needed to prevent, detect or correct problems. Undetected and uncorrected problems tarnish HUD's credibility, escalate program costs and diminish program benefits.

Background

Over the past 10 years, at the same time that major new programs have been introduced, HUD staff has declined from 17,000 to 13,500 people. The combination of increased need and decreased staff hampers new program delivery, as well as effective monitoring and close-out of ongoing and terminated programs. It has also lead to increased reliance on contractors to perform many of the program delivery functions previously performed by HUD staff.

Current Status

Our most recent audit of the management and control of staff resources concludes that HUD lacks a uniform and reliable system to identify, request and allocate staff. In addition, a recent capacity study of GNMA concluded that it lacked both the staff and skills mix necessary to effectively manage its significant financial programs. Similarly, the audit of FHA's Fiscal Year 1992 Financial Statements concluded that resource shortages are a material program weakness.

HUD develops annual management plans to prioritize its planned accomplishments. However, these plans typically emphasize new program initiatives over the *nuts and bolts* of major existing programs. Even when goals and objectives are established for existing programs, they tend to emphasize the *production* aspects. Critical activities such as contract administration, technical assistance, systems maintenance, and corrective actions and sanctions are seldom addressed.

The complexity of the staffing challenge is compounded by:

- An unwieldy organizational structure that discourages accountability;
- Geographic dispersion of staff and skills not necessarily commensurate with program workloads and needs;
- Fragmented program and financial management systems responsibility;
- Abandonment of work measurement systems for determining resource needs; and
- Hiring limits that prevent FHA and GNMA from responding to changes in economic conditions in a business-like manner.

What Needs To Be Done

As part of his *Reinventing HUD* initiative, Secretary Cisneros is assessing HUD's mission and goals and the manner in which HUD conducts business. HUD management and staff, as well as program participants, are being encouraged to recommend changes and improvements. In line with this effort, HUD has commissioned a congressionally mandated study of HUD's organizational structure.

In this era of budget austerity, it is unlikely that HUD will significantly increase its resources. Therefore, the challenge is to better utilize existing resources through alternative means of program delivery; more effective coordination of activities; increased use of training and technical assistance; greater utilization of risk based management and monitoring concepts; and stronger program enforcement practices. Again, it is likely that OMB and congressional support will be needed to significantly improve HUD's resource management.

Control Environment

Problem

HUD does not have an effective Management Control Program to raise staff control consciousness and provide for evaluation, improvement and reporting on internal control and financial management systems. Since 1983, the inception of its Management Control Program, HUD has been unable to report compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA requires agency heads to establish and maintain internal control and financial management systems which provide reasonable assurance that:

- Assets are safeguarded against waste, loss, unauthorized use and misappropriation;
- Programs comply with legislative, regulatory and administrative requirements; and
- Financial management and information systems provide management with current, relevant, and reliable information for decisionmaking and reporting.

Background

Over the 10-year life of its Management Control Program, HUD has reported 117 material weaknesses, most of which were identified by the OIG or sources other than the responsible managers. Management's failure to identify and act on material weaknesses in a timely manner continues to result in millions of dollars of losses or waste in HUD programs.

Current Status

There are several factors that affect HUD's ability to establish an effective Management Control Program. Assistant Secretaries and Regional Administrators are not held accountable for fulfilling FMFIA requirements. Instead, improvement efforts are generally pursued by Headquarters accounting staff. Further, the process is not fully extended to the regional and field offices where the majority of programs are delivered. In addition, control evaluations are usually contracted out, contributing little to improved program staff understanding of control concepts.

The CFO initiated efforts to reform HUD's Management Control Program at the end of FY 1992. Actions planned for FY 1993 include:

- Issuing revised management control policy guidance;
- Issuing a new assessable unit inventory encompassing both headquarters and HUD's critical field operations;
- Performing an updated risk assessment on the inventory of assessable units;
- Developing a Management Control Plan for scheduling required evaluations and testing internal control systems;
- Training HUD staff to enhance their understanding and appreciation of FMFIA objectives and processes and their ability to fulfill requirements; and
- Strengthening FMFIA requirements as part of management's performance plans and annual performance evaluations.

In an effort to show some progress in reforming HUD's Management Control Program, the CFO advanced the internal control evaluation process to Headquarters and regional components without full understanding, support and guidance. Moreover, the CFO still needs authority to enforce compliance with FMFIA requirements throughout the Department.

What Needs To Be Done

Additional reforms are needed before any substantive progress or benefits can be expected from HUD's stated plans to provide ongoing evaluations of its internal control systems. The CFO, as the administrator of HUD's Management Control Program, needs to identify and be able to ensure effective actions are taken on systemic problems adversely affecting internal controls across organizational or program lines.

In addition to Management Control Program Reforms, HUD's control environment would be greatly improved by increased use of program performance measures for all major HUD programs and operations. This would provide the accountability needed to improve many aspects of HUD's program delivery. The development of such measures is currently underway.

PROGRAMMATIC PROBLEMS

Although HUD continues to improve programs through changes to program policies, processes and procedures, other actions are necessary before its most significant problems are satisfactorily resolved. In many cases, effective solutions are de-

pendent on the resolution of the larger systemic problems discussed previously. We believe the following seven program areas continue to present the greatest challenge.

Multifamily Housing Loan Servicing

Problem

Multifamily housing project owners and management agents continue to misuse or divert project assets and income, thereby adversely impacting both HUD and low- and moderate-income persons through increased loan defaults and physical deterioration of projects. The problem persists because insufficient staff and poor systems contribute to ineffective monitoring thereby prolonging actions to correct problems. Lastly, available sanctions are not used effectively to force corrective action.

Background

HUD administers mortgage insurance programs that insure private lender financing of multifamily housing projects. During the term of the HUD-insured mortgage, the project owner agrees not to use project assets and income for unnecessary operations or unauthorized distributions to owners. Since inception, the programs have assisted in the creation of nearly 4 million affordable rental units with an original mortgage principal balance of over \$81 billion. At the close of Fiscal Year 1992, HUD had over \$43 billion of multifamily housing mortgage insurance in force.

Current Status

Two recent audit reports point out the continuing problems. Our report on HUD's loan servicing activities shows that assets and income continue to be diverted from HUD insured multifamily projects, and projects continue to fall short of meeting HUD's Housing Quality Standards. The impact of these problems can be seen in our recently issued report on the audit of FHA's Fiscal Year 1992 financial statements. That audit reports a \$6.4 billion increase in the loss reserves on insured multifamily loans, bringing the total reserve to \$11.9 billion, or 27 percent of the \$43.6 billion FHA multifamily insurance in force.

To establish a more reliable estimate of loss reserves for loans in troubled categories, the financial data for approximately 13 percent of FHA's insured multifamily loans was reconstructed, including the majority of its large and troubled loans.

Although this was an important first step, the financial statement audit shows that HUD still lacks an essential central data base for all insured multifamily loans, and a system that provides reports on the financial and operational status of individual loans at the field, regional and Headquarters levels.

Without such a system, FHA is constrained in its monitoring and loss prevention efforts and senior management is hampered in effectively overseeing the efforts they direct. Compounding the problem is the fact that HUD has only about 560 staff to monitor the servicing of \$43 billion of insured mortgages. While FHA management has strengthened servicing policies and procedures, sufficient staff has not been available to effectively carry them out.

What Needs To Be Done

We believe the problems in the multifamily loan servicing area will remain until management provides the systems and staffing support necessary to monitor and enforce program requirements, or, alternatively, makes significant changes in the way the Department conducts its operations in this area.

Asset Management and Property Disposition

SINGLE FAMILY AND MULTIFAMILY HOUSING

Problem

Controls over HUD's single family and multifamily property management and disposition activities are not adequate to preserve the housing inventory and protect the financial interests of the government. While HUD has substantially improved its property management systems support and internal controls, problems of staffing and resource management continue to adversely impact this high dollar program area.

Background

The purposes of the single and multifamily housing programs are to facilitate home ownership, stimulate housing construction, upgrade housing quality, and provide decent, safe, and affordable housing for low- and moderate-income families. HUD contracts with area management brokers or property managers to manage the

properties it acquires through mortgage defaults until those properties are sold. Brokers and property managers have limited authority to procure goods and services within the bounds of the Federal Acquisition Regulations, HUD procurement policies and procedures, and the terms of the management contract. HUD field offices contract with closing agents to handle single family property sale settlements, including necessary disbursements and transfers of HUD monies to the U.S. Treasury.

At the end of Fiscal Year 1992, HUD had an inventory of approximately 34,800 single family units and 154 multifamily projects. These numbers will increase because of the 91,397 single family mortgages assigned to HUD, and 249 defaulted multifamily projects awaiting foreclosure. Single family property sales in Fiscal Year 1992 totaled \$4 billion.

Current Status

Control over single family property disposition activities has been significantly improved by a major new automated Single Family Asset Management System (SAMS) that tracks receipts and disbursements from assumption to final sale. We believe this system and other controls have eliminated the material weaknesses over closing agents, which resulted in the highly publicized *Robin HUD Scandal*.

Controls on the multifamily side have been less successful. HUD implemented a computerized Property Management System to provide data for monitoring property manager activities. Although HUD reported that the system was fully implemented as of December 1990, subsequent reviews by our office and a contractor found that it was not fully functioning as intended. Also, our recent audit report covering the Management of HUD-Owned Projects and the previously mentioned FHA financial statement audit, show that HUD field offices are not implementing repair policies to prevent further deterioration of HUD owned properties.

To improve contract administration, in September 1991, the procurement function for asset management and disposal services was transferred from the Office of Housing to the Office of Administration to capitalize on its procurement expertise. In addition, the separation of duties between Housing and Administration was intended to improve management controls. However, because of resource constraints in some offices, these transfers have not been fully implemented.

What Needs To Be Done

Housing officials must quickly develop revised strategies to deal with the growing asset management problems. These staff intensive activities compound the current staff shortages by diverting attention from the more important loss prevention activities discussed previously in the loan servicing section. Until concrete steps are taken, the dual problems will continue to drain the multifamily insurance funds.

Community Development Block Grant Program

BENEFITS TO LOW- AND MODERATE-INCOME RESIDENTS

Problem

HUD management needs to strengthen controls to ensure that CDBG grantees fund eligible activities and provide the required level of benefits to low- and moderate-income persons.

Background

The Housing and Community Development Act of 1974, as amended, provides grants to State and local governments to fund programs for decent housing and suitable living environments and to expand economic opportunities chiefly for low- and moderate-income persons. Activities are funded to achieve any one of three national objectives: benefit low- and moderate-income persons, aid in preventing or eliminating slums and blight, or meet other urgent community needs. By law, at least 70 percent of all CDBG funds are to be used to benefit low- and moderate-income persons. In Fiscal Year 1993, the CDBG Entitlement Program will provide about \$2.9 billion dollars to invest in community development.

Current Status

Our audits continue to disclose problems with program administration and reported program benefits. In those audits, and prior congressional testimony, we reported the need to:

- Develop and disseminate clearer guidance on the propriety of program expenditures;
- Implement risk based monitoring to better target resources at the most vulnerable areas; and

—Implement better management and accounting systems to provide more timely and accurate information on how program funds are being spent.

What Needs To Be Done

Major changes are needed in the program's structure. Secretary Cisneros' *Reinventing HUD* initiative is focused on HUD's community programs delivery. Early feedback from several sources calls for the programs to be simplified and administered in a way that provides for greater local decision making and choice; corresponding flexibility in HUD programs; increased client service and technical assistance; and improved performance measurement and accountability at all levels of program delivery. Although this new direction appears reasonable, the types of changes being discussed by the new administration would likely require legislative and/or regulatory changes.

Public Housing Agencies

Problems

Significant problems in the management and operations of many public housing agencies (PHAs) continue to frustrate HUD's efforts to achieve its goal of providing decent, safe, and sanitary dwellings to low-income families. The capability of PHAs to manage federal funds, as well as HUD's oversight of such agencies, must be improved. Increased training and technical assistance, as well as alternative PHA management strategies, are needed.

Background

PHAs can be State, county, municipality, or other public bodies determined eligible to engage in or assist in developing, owning, and operating housing projects. HUD relies on over 3,100 PHAs to manage 1.3 million units as well as about 80 percent of its annual budget allocation. Funds are distributed principally through operating subsidies, section 8 funding, and development/modernization grants. The Federal investment in the Public Housing Program is both significant and accelerating. During the early 1950's local governments shared equally in subsidizing public housing; however, the Federal Government is now assuming most of the direct subsidy costs.

Current Status

Although many PHAs are suffering severe crises, the solution is not just more money. For example, public attention was recently focused on an estimated \$6 billion of unused public housing modernization funding that is in the pipeline from prior years. We have found that some PHAs, particularly those with more than 1,250 units, often lack the administrative capacity to effectively manage the substantial sums of Federal and other funding they already receive.

Only 5 percent of the PHAs are considered *large*, but those PHAs manage nearly 60 percent of the public housing stock. Our audits continue to report serious operating and management problems at large PHAs. The result is the ineffective expenditure of millions of dollars due to inefficient maintenance, tenant mismanagement and poor energy conservation practices. Also, many of these PHAs are not providing their residents with housing that meets HUD's Housing Quality Standards. In many instances, properties are deteriorating, vacancies are increasing, operating expenditures are unchecked, rents are uncollected, and administrative and financial practices and controls are inadequate.

These financial and management problems can be traced to a variety of causes. Some are statutorily based, such as the limit on rents that can be charged very low-income families. Other causes are poor management, increased responsibilities, complexity of program regulations, and lack of effective HUD monitoring.

HUD is pursuing new alternatives in many large troubled PHAs. The alternatives include allowing residents to vote for new management or exercising HUD's statutory authority to seek court-appointed receivers for poorly managed projects by declaring a PHA in breach of its Annual Contributions Contract. In addition, the Housing and Community Development Act of 1992 contains numerous provisions addressing PHA management and operational problems, but it will take time for full implementation.

HUD is in the process of implementing the legislatively mandated Public Housing Management Assessment Program (PHMAP). PHMAP's goal is to improve PHA management and performance by establishing performance goals and related incentives and sanctions. To support and expand on the PHMAP effort, HUD is in the final testing phase of a four-phase \$1.2 million contract for Program Management Assessment, tasked with developing and field testing a Public Housing mission statement; new functional responsibilities for HUD staff; a risk based staffing allo-

cation model; a revised field monitoring handbook strategy; and several other key elements.

What Needs To Be Done

These efforts will help to better focus HUD's public housing program resources on PHA problems, but effective implementation is a large undertaking that warrants continued congressional and HUD attention.

Government National Mortgage Association Contract Management

Problem

With a staff of only 70 people, GNMA relies heavily on contractors to carry out the asset management and program responsibilities associated with its \$422 billion Mortgage-Backed Securities Program. This small staff, coupled with GNMA's history of poor procurement and contract administration practices, provides GNMA limited assurance that critical program functions are properly performed and that contractor claims for services and costs are reasonable and valid.

Background

GNMA is a wholly owned government corporation, created through amendment of Title III of the 1968 National Housing Act, and overseen by its president and the Secretary of HUD. Through its Mortgage-Backed Securities Program, GNMA guarantees payment of principal and interest on securities issued by private institutions and backed by federally insured or guaranteed mortgage loans. Each year GNMA guaranteed securities provide the financing for approximately 95 percent of all loans insured by FHA or guaranteed by the Department of Veterans Affairs.

Current Status

GNMA has for several years experienced a significant increase status in issuer defaults. When an issuer defaults, GNMA assumes issuer status. With its subservicers, GNMA manages individual pools by collecting delinquent loans, modifying loans, and filing claims on assigned mortgages and foreclosed properties. GNMA's acquired portfolio peaked at about \$15 billion in Fiscal Year 1991. By the end of Fiscal Year 1992, an aggressive asset sales policy cut the portfolio to about \$8 billion. However, it is anticipated that continued multifamily defaults will substantially increase GNMA's portfolio.

In 1989, we recommended GNMA's oversight of subservicer contracts be considered a material weakness. Since that time, GNMA has improved its subservicer selection and established standard performance requirements. Perhaps the most important action was hiring a contractor to monitor subservicer activities and contract compliance. The contractor was selected in September 1991, with plans to complete reviews of many of GNMA's largest service contracts in Fiscal Year 1992. However, the audit of GNMA's Fiscal Year 1992 Financial Statements, dated February 1993, reported that the contractor performed monitoring reviews were still not complete and the material weakness on subservicer monitoring was not fully resolved. The report recommended additional improvements to GNMA's administration of subservicers, as well as the need for contract compliance or internal control reviews of GNMA's significant central paying and transfer agent contractor and its issuer monitoring contractor.

What Needs To Be Done

Using a contractor to monitor other contractors raises questions as to whether GNMA has abdicated an inherently governmental function. It may be more prudent for GNMA to hire its own permanent staff to administer its contracts, thereby strengthening its control over its programs.

GNMA needs to evaluate its servicing policies to ensure that every reasonable effort is made to protect the government's interests as a whole, including FHA. Our audits have reported the need to better coordinate related GNMA and FHA activities to include:

- Following up with owners to correct adverse conditions disclosed in site review reports and financial statement reviews;
- Determining causes of delinquencies and defaults, and evaluating the likelihood of reinstatement;
- Providing notice of significant regulatory agreement violations and indicators of possible fraud; and
- Initiating enforcement actions against project owners or managing agents.

A recent GNMA capacity study concluded that GNMA needs additional staff and an improved staff skills mix to perform essential services. GNMA's problems could

be severely compounded if additional resources do not accompany the new GNMA programs being supported by the current Administration.

Section 8 Budgeting and Accounting

Problem

HUD does not adequately track and control billions of dollars of long-term Section 8 subsidy commitments. As a result, millions of dollars of subsidy payments are made incorrectly, and HUD has difficulty establishing program funding needs.

Background

Since 1975, the Section 8 Program, authorized by the United States Housing Act of 1937, as amended, has been the primary vehicle for providing federally assisted housing. The program is designed to assist low-income families to obtain decent, safe, and sanitary housing through subsidies provided to tenants or owners. Fiscal Year 1992 outlays for all aspects of the Section 8 Program were expected to total about \$12.6 billion. At the end of Fiscal Year 1992, HUD estimated that about 2.8 million units qualify for Section 8 funding.

Current Status

Reports by OIG and GAO and congressional hearings have all identified three principle problems in Section 8 accounting and budgeting. These problems are:

- Ineffective and inefficient processes resulting in millions of dollars of incorrect and misdirected subsidy payments.
- Division of major financial and accounting functions between field, program and accounting staffs which contribute to HUD's inability to track its various financial operations and provide accurate budget information.
- Insufficient HUD resources and systems to effectively and economically administer Section 8 Programs as they are currently structured.

Our 1990 audit of Section 8 budgeting and accounting focused on HUD's inability to produce accurate and reliable data. To illustrate, Section 8 Funding needs were underestimated by \$1.2 billion in the initial Fiscal Year 1992 budget request. Consequently, OMB initiated a *Swat Team* to develop a last minute budget revision. This need created considerable concerns on the part of the Appropriations Committees.

What Needs To Be Done

In response to a 1990 study, HUD is developing an integrated subsidy budgeting and accounting system, referred to as the CFS/TRACS System. HUD is attempting to implement the Control Files Subsystem (CFS) and has begun to develop the Tenant Rental Assistance Certification System (TRACS). In compliance with a legislative mandate, we reviewed the accuracy of the Fiscal Year 1992 and 1993 Section 8 Program budget estimates, as well as the progress of CFS/TRACS. Although improvements have been noted in HUD's methodology for estimating its Section 8 requirements, we cannot attest to the accuracy of HUD's budget estimates. We also found that progress on CFS/TRACS was impeded by planning, administrative and technical problems. As detailed in Chapter 4 of this report, several of our audit recommendations to improve HUD's budget estimates and CFS/TRACS development have yet to be satisfactorily addressed.

HUD's ability to administer the Section 8 Program has been further eroded by the need to assign staff to the labor intensive reconstruction of data for the CFS/TRACS Project. HUD, OMB and the Congress need to consider the lessons learned from the CFS/TRACS experience, and assure that sufficient planning and resources are provided for the remainder of the critical systems overhaul needed at HUD.

Implementation of New Programs

Problem

Implementation of the HUD Reform Act of 1989, the National Affordable Housing Act of 1990, and the Housing and Community Development Act of 1992 poses a major management challenge for HUD. The challenge is to develop and implement plans for the efficient and effective implementation of widespread program changes, as well as significant new programs such as the HOME, HOPE, Multifamily Prepayment/Preservation, and Public Housing Management Assessment Programs.

Background

In 1983, HUD established a Front-End Risk Analysis (FERA) requirement, as part of its FMFIA program, to ensure that adequate internal controls are built into all new or substantially revised programs. The process called for:

- Identification of program risks and control objectives;
- Description of control techniques to minimize risks; and
- Action plans identifying milestones and responsible officials for ensuring that adequate controls are established as a critical part of program implementation.

Current Status

In light of the many new and revised programs at HUD, the prior Secretary and Deputy Secretary placed a renewed emphasis on HUD's FERA process. This emphasis was reflected in the 1991 transfer of responsibility for FERA to the CFO. However, implementation of FERA has continued to be problematic.

The CFO initially failed to establish adequate requirements and guidance for conducting FERAs and did not plan adequately for conducting FERAs. Although improved requirements and guidance were issued in September 1992, stronger efforts are needed to ensure they are carried out for new programs enacted by the Housing and Community Development Act of 1992 and legislative initiatives of the new Administration and Congress.

In the absence of effective risk analysis and control system planning, management increases the risk that new programs will be implemented without adequate systems of internal control. If done properly, the FERA documents could also serve as a training aid for staff assigned to new program operations. Since the new programs were generally enacted without corresponding increases in HUD staffing, the availability of knowledgeable staff to administer these programs is a major concern.

What Needs To Be Done

The OIG continues to monitor management's implementation of HUD's major new programs, and is initiating audit work as each major program activity comes on line. Our 1992 survey of automated systems support for HUD's largest new program, HOME, reported staffing and systems concerns to effectively monitor the use and benefits of this multi-billion dollar program. HUD has since come under considerable criticism for its inability to timely and effectively implement the HOME Program. Recently, Secretary Cisneros announced plans to simplify program requirements, expedite program benefits, and provide training to communities.

Mr. Chairman, this concludes our formal statement and we would be pleased to answer any questions.

QUESTIONS FOR JOHN CONNORS FROM SENATOR CHRISTOPHER BOND

Q.1. *Community Development Block Grant (CDBG) Program.* Mr. Connors, the Office of the Inspector General has identified the CDBG Program as a program with significant problems; namely, that HUD management needs to improve controls for ensuring that CDBG grantees fund eligible activities and that these activities primarily benefit low- and moderate-income families. I would like your specific recommendations for improving HUD controls for the CDBG Program. I would also be interested in any legislative recommendations for ensuring the integrity of the program.

A.1. HUD currently lacks the necessary authority, political support and resources to effectively ensure that CDBG recipients use funds for eligible activities which primarily benefit low- and moderate-income families. Under existing circumstances, the OIG advocates that it would be more efficient, and no less effective, to administer CDBG in the form of a "categorical revenue-sharing program," targeted at hard costs for community development. This would retain and better acknowledge the local governments' responsibility for the use of needed community development funding, while freeing scarce HUD staff resources to support higher risk HUD programs where they can have a greater impact.

The alternative is to improve controls over the existing CDBG program structure by: (i) authorizing greater up front program planning information as a basis for monitoring program performance; (ii) simplifying and clarifying program requirements and eligibility criteria; (iii) improving data systems for measuring program performance, and (iv) establishing and strongly supporting an effective program enforcement process. Secretary Cisneros' "Reinventing HUD" initiative is currently studying ways to streamline and simplify the structure of HUD programs, with emphasis on the need to increase accountability for performance at all levels of program delivery.

Q.2. *Public Housing Agency Management.* Mr. Connors, the Office of the Inspector General has indicated that significant continuing problems exist in the management and operations of public housing agencies.

In your testimony, you suggest, among other things, that alternative PHA management strategies are needed. Would you elaborate on this suggestion?

Under what circumstances should HUD seek court appointed receivers for troubled PHAs?

A.2. The public housing program is the nation's largest assisted housing programs, serving some 3.7 million low-income persons. Most of the 3,200 public housing agencies (PHAs) administering public housing are generally well-managed and not suffering from any major distress. However, our recent and past reviews, as well as reviews performed by others, have disclosed that some large PHAs, particularly those located in major metropolitan areas, are experiencing serious management problems and extensive financial and social distress. In fact, of the 23 large PHAs currently designated by HUD as troubled, 16, or over two-thirds, are located in major metropolitan areas. These PHAs are important because they

manage a relatively large proportion of the nation's public housing stock and are the recipients of a large percentage of HUD's operating and modernization subsidies, despite their small number.

For these PHAs, we believe that alternative management strategies are needed. The management strategies are really twofold in focus and involve improving the manner in which these troubled PHAs are managed and the way in which HUD oversees such PHAs. HUD is already addressing the latter through its emphasis on PHA performance in terms of results rather than process and its adoption of a risk management approach to targeting PHAs and activities for monitoring purposes.

With respect to improving PHA management, more effective alternative strategies are needed to make PHA management more responsible, resourceful, and accountable and make PHA governing boards exercise more oversight of PHAs' affairs. Such strategies must be designed to bring both parties together in a cooperative effort to foster and encourage communication and relationships with public housing residents and local citizenry.

Likewise, the strategies must be designed to encourage local governing bodies to assume a more positive role in supporting and assisting these PHAs to achieve their goals. HUD, too, must continue and intensify its efforts to work in a constructive manner with these PHAs and assist them in solving their problems and removing all impediments to the effective management of public housing.

HUD's strategies must also involve acting decisively and forcefully to remove PHA management when such action is warranted. This latter strategy should involve seeking receivership, declaring PHAs in breach of their Annual Contributions Contracts with HUD, and generally using the legal authority and sanctions under Section 502 of the National Affordable Housing Act and Section 113 of the Housing and Community Development Act of 1992. Private for a profit management, management by other PHAs, HUD management, resident management, management by qualified non-profit organizations, or any combination of these methods should be pursued. This could be done on a PHA development-by-development basis in some cases.

It is difficult to establish precise criteria for determining when HUD should seek a court-appointed receiver for a troubled PHA. The nature and extent of a PHA's potential problems, as well as the solutions to those problems, are numerous and varied. Obviously, receivership is a "last resort" or extreme undertaking which should only be pursued whenever a PHA is no longer capable of delivering adequate housing and services to its residents and when other, more traditional and less drastic methods to improve the situation have failed. In fact, the only large troubled PHA that has entered into formal receivership is the Boston Housing Authority. If receivership is to be pursued for some PHAs, it might be appropriate for HUD to first evaluate PHA's experience with receivership.

Q.3. *Financial Management Data Systems.* Mr. Connors, your testimony emphasizes the need to put in place in the Department integrated financial management data systems to ensure the integrity of HUD programs.

What are the major impediments to putting these integrated financial management data systems in place at HUD?

I understand from your testimony that HUD's budget for the development of integrated financial management data systems is insufficient to install these systems quickly at HUD. Has there been a cost benefit analysis performed regarding the cost of these systems as opposed to the associated savings which will be achieved through the prevention of fraud and abuse in HUD programs?

A.3. From the OIG's perspective, there have been several major impediments to upgrading and integrating HUD's financial management systems, including:

- Fragmented responsibility for HUD's systems development and operations,
- Limited in-house technical expertise and extensive reliance on contracted systems development,
- Poor planning of systems requirements and the resource levels necessary to support the new system development and implementation,
- Limited program office participation and buy-in to the systems development efforts,
- A lack of strong leadership for the systems integration effort, and
- Insufficient budget authority for the systems integration effort.

The Department has performed a general cost-benefit analysis in support of its systems integration plan. In our opinion, the need to upgrade and integrate HUD's financial management systems is critical to improving HUD's program delivery and preventing much of the fraud, waste and abuse that has typified HUD over the years. However, the current systems integration plan, and the related cost estimates, need to be reassessed by Secretary Cisneros' new management team to assure they make sense in the context of their program and management agenda. The Secretary has focused HUD's new Chief Financial Officer on the critical task.

Q.4. *Employee Reductions.* Mr. Connors, in your testimony, you indicated that HUD does not have sufficient staff to carry out its operations as currently structured; that over the last 10 years, HUD staff has declined from 17,000 to 13,500 people. Moreover, as you know, the President has issued a number of Executive Orders requiring Federal agencies, including HUD, to reduce the number of employees and administrative costs.

I would like your recommendations on how HUD can improve its management, operations, and program responsibilities with this limited staffing?

A.4. Both the efficiency and effectiveness of the Department can be improved by simplifying and streamlining HUD's programs and operations. For example, effort currently expended on the award and administration of many separate but similar programs, such as the Homeless Programs, could be substantially reduced by combining and simplifying those programs. Budget savings could also be realized by consolidating field offices and centralizing many administrative and program functions. Lastly, HUD can better use its available resources through "risk-based" management strategies which target emphasis on higher risk program areas and program participants. Improvements to HUD's data systems are critical to

a more effective implementation of risk-based management techniques.

QUESTIONS FOR JOHN CONNORS FROM SENATOR ALFONSE M. D'AMATO

Q.1. In your testimony at this Committee last June you said that:

"Secretary Kemp and his top management officials have made great strides in restoring public confidence in the integrity of the Department's operations and to improve significantly its financial management control systems."

In your opinion, how much longer will it take to reform HUD and make it a sound and successful agency?

A.1. The above quoted segment of our June 1992 testimony went on to state:

"The management environment at HUD today is fundamentally different from the one that existed in 1989 when Secretary Kemp took office. In 3 years, the Kemp Administration has initiated the first steps to build better systems, improve internal controls, and increase HUD's responsiveness and accountability. However, as our office has testified before, the implementation stage will be a long and difficult process."

We continue to believe the actual implementation of meaningful reforms will be a long-term and difficult process. HUD's systems integration plan, a critical piece of the reform of HUD, was not expected to be completed until 1998. As with any change in administration, many planned changes have been stopped or slowed pending commitment from the new management team. Secretary Cisneros' "Reinventing HUD" initiative is looking at broader, sweeping changes that could totally change many of the plans put in motion by the prior administration. Although we are encouraged by the feedback we have received from the "Reinventing HUD" initiative to date, nothing firm has resulted to date, and many of the possible changes being considered would require OMB and Congressional approval.

Q.2. In your opinion, what area of HUD is in the most urgent need of reform?

A.2. From a program mission perspective, the most urgent area in need of reform is HUD's low-income public housing programs. Public Housing Agencies (PHAs) administer 70-80 percent of HUD's appropriated funds and touch the largest number of persons in need of HUD's housing assistance. In many PHAs, particularly large urban PHAs, management problems often preclude the effective use of available funding and undermine HUD's goal of providing decent, safe, and affordable housing for low-income people.

From a financial impact perspective, HUD's insured multifamily housing programs area is in urgent need of reform. Poor data systems, insufficient resources, and the lack of a strong program enforcement culture make HUD highly vulnerable to improper project income and asset diversions which increase the likelihood of costly loan defaults to HUD and substandard living conditions for intended low- and moderate-income beneficiaries of these programs. HUD increased its loss reserve for insured multifamily loans to nearly \$12 billion at the close of Fiscal Year 1992.

QUESTIONS FOR JOHN CONNORS FROM SENATOR PAUL S. SARBANES

Q.1. How should Congress judge HUD's progress on management issues? What quantifiable criteria should we use? How can we be assured that progress is being made?

A.1. Periodic hearings, such as this, are a good place to start. In addition, Committee oversight should focus on whether HUD is properly integrating its program agenda, its budget, and its management activities. In our opinion, the failure to integrate these 3 interrelated activities is the primary reason why the reform of HUD has not progressed more than it has. This is a situation where HUD, OMB and the Congress share responsibility. Any of the 3 parties can undermine the reform efforts of the other if the integrated balance of any of these 3 pieces is brought out of line with the others.

The Secretary has several key management reports, such as the Secretary's Report on Management Controls, which Congress could use to help measure HUD's progress. In addition, our audit efforts have disclosed the need for HUD to better establish performance measures for its major programs in accordance with requirements of the Chief Financial Officers (CFO) Act. Congress should monitor HUD's progress in this regard, as it will give them a good indicator of management progress in all major program areas.

Q.2. Why is HUD the only Cabinet level agency to never report compliance with the Federal Managers' Financial Management Act?

A.2. HUD has not reported compliance with the Federal Managers' Financial Integrity Act (FMFIA) because HUD is not in compliance. Although HUD program managers have typically reported compliance with FMFIA in their respective areas of responsibility, annual OIG audits of the FMFIA process have generally found that management did not have a valid basis for reporting compliance because they had either not evaluated and tested their systems of control, or evaluations in the form of OIG audits or contracted reviews found material weaknesses in those systems of internal control. To date, the Secretary's annual FMFIA assurance statement has reflected the results of the OIG's independent evaluation of FMFIA activities, rather than HUD management's assessment of its own compliance.

Q.3. A consistent criticism of HUD has been the "gotcha" mentality of staff. Instead of facilitating the development of affordable housing and strong, viable communities, staff have been accused of caring more about catching violations and infractions of regulations, thereby stifling creativity and innovation. What can be done to change the organization's culture? Are the steps that Secretary Cisneros has outlined for "reinventing HUD" ones that you would recommend?

A.3. Feedback we have received from the Secretary's "reinventing HUD" efforts to date indicates that the effort is on target with its ideas for possible changes to HUD's mission, role and results. In general, the goal is to streamline and simplify HUD programs, and administer them in a manner which provides for:

- greater local decision making and choice;
- corresponding flexibility in HUD programs;
- increased client service and technical assistance from HUD; and
- improved performance measurement and accountability for results rather than process or technical compliance.

Q.4. The Secretary has highlighted problems with the disposition of the multifamily inventory, and the statutory requirement that HUD attach Section 8 rental subsidies to property disposition units. Does HUD have the staff capability to accelerate property disposition? If we accelerate disposition, will staff needed for other activities like loan management, servicing and monitoring, need to be redeployed for disposition?

A.4. On May 12, 1993, GAO testified before the House Banking, Finance and Urban Affairs Committee on this subject. GAO indicated that HUD does not have, nor is it anticipated to get enough staff to effectively perform necessary monitoring and management functions pertaining to all of the multifamily insured projects coming into the HUD-Held inventory. In 1990 HUD had 10,000 units in inventory. In 1992, the inventory increased to 27,000 units, with 42,000 additional units in foreclosure proceedings. Congress needs to take one of three possible actions to alleviate this situation: (1) provide the Section 8 funding to enable HUD to sell the properties under current requirements; (2) repeal the Section 8 conditions for property sales to give HUD greater flexibility; or (3) pursue alternative disposition strategies such as the HOPE II Program concept.

Q.5. The CDBG program still spends only about 4 percent of funds in the first year they are made available, after nearly twenty years of operation. No money at all is spent in the year appropriations are made available for other long-established HUD programs like public housing modernization, public housing development, and Section 202 housing programs. In fact, it takes more than four years to expend all of the funds for these three programs. To what extent do you believe these delays are legitimate?

A.5. It is our belief that the lag in the use of program funding stems from inadequate program planning and limitations in the management capacity of the local governments or PHAs responsible for utilizing the funding. We anticipate scheduling reviews of this issue as part of our Fiscal Year 1994 Audit Plan.

Q.6. Some have suggested that hospitals insured by FHA could be the next debacle to afflict HUD. Do you view the hospital program as a particular management risk? What approach should HUD take toward dealing with the risks inherent in this program?

A.6. The Hospital Program is a high risk by virtue of the large size of the insured loans, HUD's lack of hospital expertise, and the split program roles of HUD and HHS. At the close of Fiscal Year 1992, HUD had insurance in force on 132 projects with an outstanding principal balance of nearly \$4.7 billion. The current loss reserve for the program is set at about 10 percent of the portfolio, or approximately \$400 million. HUD arranged for several consulting studies to identify ways to improve controls and minimize the risks of the program. Information and emphasis on the program has been

greatly improved. Effective project monitoring is critical on existing loans, with sound underwriting of future loans.

Q.7. You have identified staffing as one of the most pressing, systemic problems of HUD. The President's FY94 Budget proposes to cut 220 staff from the Department. What steps can be taken to improve program efficiency to make up for these cuts?

A.7. As indicated in our previous response to Senator Bond's fourth question above, both the efficiency and effectiveness of the Department can be improved by simplifying and streamlining HUD's programs and operations. For example, effort currently expended on the award and administration of many separate but similar programs, such as the Homeless Programs, could be substantially reduced by combining and simplifying those programs. Budget savings could also be realized by consolidating field offices and centralizing many administrative and program functions. Lastly, HUD can better use its available resources through "risk-based" management strategies which target emphasis on higher risk program areas, requirements, and participants. In this context, HUD must look at the relative comparative risks of all its programs and better deploy its available resources to address those risks.

Q.8. During the past several years, as staffing levels have been cut, the Department has increasingly relied upon outside contractors to implement programs, underwrite and process loans. How much of HUD activity is contracted out? How efficient is the use of contractors to conduct HUD activities?

The GAO informs us that, while Ginnie Mae's in-house staff currently totals 70, the total number of outside contractors working for Ginnie Mae amounts to 566 persons. Last year, GAO conducted a study demonstrating the increased risk confronting Ginnie Mae resulting from so many outside contractors. How can Ginnie Mae ensure accountability with an agency that is predominantly composed of outside contractors? Given Ginnie Mae staffing situation, does the proposal in the President's budget to extend Ginnie Mae's guarantee coverage to include Real Estate Mortgage Investment Conduits (REMICS) expose the Government to any additional risks? Could the costs of running Ginnie Mae be reduced, and therefore savings incurred, as a result of shifting Ginnie Mae's outside work to in-house personnel?

A.8. HUD is currently participating in an OMB initiated governmentwide review of its procurement and contracting activities. Our office is assisting in the review, which is scheduled for completion in June 1993. A 1987 assessment of this issue found that approximately one third of the staffing effort funded by HUD were contracted personnel. This probably has not changed, much.

Many HUD program functions and activities lend themselves to contracting-out in a manner which can be more efficient and effective. However, it is our opinion that HUD is now contracting for advisory and assistance services that would be better performed in-house. The heavy reliance on contractors for HUD's systems development, contract administration support and monitoring of third party program participant performance is a major concern. We believe it would be more prudent for these contract funds to be used to increase HUD's own management and staff capacity to perform

these critical activities. Given the high contract rates paid for these services, it may actually be a savings. However, the big benefit is increased HUD knowledge and control over its own program activity.

GNMA is the HUD organization most reliant on extensive contract support for performance of its program functions. In our opinion, GNMA's use of and reliance on contractors is too great. Our reporting of material weaknesses in GNMA's contract administration and monitoring of program functions performed by contractors resulted in GNMA's award of a major contract to assist GNMA in performing these essential functions. This was necessitated by GNMA's inability to increase its own staffing due to budget limitations placed on GNMA's staffing. The questionable use of a contractor in this regard recently manifested itself when GNMA's largest service contractor refused to be monitored or reviewed by another contractor which it views as a competitor. GNMA plans to alleviate this dispute in its renewal of the service contract, but insufficient monitoring is being performed in the interim. Consideration should be given to increasing GNMA's staff in lieu of contracting for services, particularly those of a management or contract administration nature. This could be a savings, or at least a "budget neutral" action. Approval of any new GNMA program efforts, such as REMICS, will compound GNMA's problems unless they are approved with an appropriate increase in staffing.

QUESTIONS FOR HENRY CISNEROS FROM SENATOR CHRISTOPHER BOND

Q.1. *Efforts of Secretary Kemp.* Mr. Secretary, as you stated in your testimony, Secretary Kemp made a good start at addressing problems relating to HUD's internal controls and that he laid the cornerstone for management and financial improvements. Would you identify the efforts of Secretary Kemp that you plan to build on?

A.1. The primary effort initiated by Secretary Kemp upon which this Administration will build is the Department's financial management systems integration plan. This plan, as originally approved by OMB, provides for the integration of about 100 existing financial systems into 9 integrated systems. This is an arduous task, which cannot be completed overnight. The Department anticipates devoting approximately \$20 million to this effort in FY 1994. In recognition of the dollars and resources necessary for this endeavor, I have instituted a Task Force on Systems Integration chaired by Deputy Secretary Duvernay to oversee the progress being made to effectively and efficiently integrate the Department's numerous financial management systems. The Task Force is currently re-evaluating the implementation strategy for systems integration based on program priorities and resources. I will be personally monitoring the efforts of this steering group and have made this one of my top three management priorities at the Department.

Additionally, I plan to build upon the efforts of Secretary Kemp with regard to management controls. While some initial steps have been taken, much work remains to be done. The Department has been segmented into assessable units and these units have been evaluated to determine their susceptibility to fraud, waste, and abuse. The next step in the process is to conduct management con-

trol reviews to identify control weaknesses and take actions to correct the systemic weaknesses. These reviews will be conducted by knowledgeable program managers rather than relying on contractors as has been done in the past. Approximately 250 managers, both in the Field and Headquarters, have been trained in this review process in anticipation of this upcoming endeavor. This will be results oriented and not a process-driven exercise.

Q.2. EMPLOYEE REDUCTIONS. The President has issued a number of Executive Orders requiring Federal Agencies, including HUD, to reduce the number of employees and administrative costs. What steps has HUD taken to implement these Executive Orders? What steps do you plan to take to ensure that these cost cutting requirements do not undercut the integrity and effectiveness of HUD programs?

A.2. The Executive Order requires agencies to reduce staff through attrition. HUD currently has a hiring freeze in place, and it will remain in place until we are sure that we will be in compliance with the Executive Order.

The "Reinventing HUD" initiative is expected to produce a strategic plan within six to nine months to provide the key to resolving many of HUD's resource management issues. It will be the basis for organizing the workforce, allocating staff, and developing results-oriented performance measures to enable the Department to evaluate program and organization effectiveness and individual performance. It will address the 5 capacity factors: (1) number of staff, including contractors; (2) processes; (3) skills; (4) technology and systems; and (5) organization. Additionally, an organizational review mandated by Congress is now underway by the National Academy of Public Administration.

An ongoing review of administrative costs is underway to identify potential cost savings in items of expense such as printing, subscriptions, cellular phones and pagers, and space rent and alterations.

Q.3. FINANCIAL MANAGEMENT DATA SYSTEMS. Mr. Secretary, your testimony emphasizes the need to put in place in the Department integrated financial management data systems to ensure the integrity of HUD programs. These systems would perform such functions as identify the number and cost of vouchers and certificates and when such vouchers and certificates would be subject for renewal and the cost of such renewal. Your testimony indicates that this systems integration effort at HUD has either fallen behind schedule or is likely to fall behind schedule. You have also indicated that you have appointed a HUD Task Force on Systems integration.

Could you please tell the Committee when you expect the systems integration effort at HUD to be completed?

A.3. Systems integration is a high priority for the Department. I have established a Task Force on Systems Integration, chaired by Deputy Secretary Duvernay, with membership from the key Assistant Secretaries, Inspector General and Chief Financial Officer. This Task Force is charged with responsibility to provide policy direction on systems integration activities, ensure that a high priority is placed on all systems integration projects, make decisions impact-

ing integration efforts, and review and approve allocation of resources. This Task Force has already held several meetings to address the scope and status of the two projects already in progress. These are the CFS/TRACS project, which is focused on correcting the disbursement and budget problems with the Section 8 programs, and the Core Accounting project, which is directed at consolidating and integrating the Department's diverse accounting systems. A third project, integration of the FHA/mortgage insurance systems, is currently in its early stages. Project timelines are currently being updated and presented to the Task Force for review and approval.

These projects are significant undertakings, impacting multiple program areas within the Department. As such, these systems will be implemented in phases throughout the country on a geographic and/or programmatic basis.

These projects will also be impacted by our efforts to reinvent HUD. Our efforts to reinvent the Department will change the way HUD does much of its business. These new systems must support these reengineered business processes. It will be important for the Task Force to work closely with the reinventing team to ensure consistency of efforts.

To assure that systems are developed which support the business needs of the Department, the Task Force had established accountability for systems in the responsible program offices. The systems integration plan will be evaluated and revised as necessary to assure that program needs are met.

HUD's systems integration effort is a long term solution to a significant deficiency in processing the Department's business. Systems integration is a multi-year effort, which started in mid-1991, and covers all of HUD's business areas. Multiple efforts are currently underway concurrently in several areas and are projected for completion in the 1997-1998 timeframe. These multiple efforts will be monitored by the highest level of the Department to ensure a timely success to systems integration.

What are the major impediments to putting these integrated financial management data systems in place at HUD?

As with any project of this magnitude, there are a number of impediments to implementing integrated systems at HUD. The first consideration is the availability of resources. This includes both financial resources and knowledgeable staff. Most critical to the success of systems integration is the active participation of program knowledgeable staff. In order for the systems to meet the needs and requirements of the numerous HUD programs, program managers must actively support and participate in these projects. In addition, HUD must have the support of Congress to ensure that the appropriate budget resources are included in the Department's Salaries and Expenses budget. The Department must continue to support its existing systems while it builds the new integrated systems. During the development phase of the project, additional resources will be required to support both efforts.

The key to useful management information is the accuracy of the data in the Department's systems. As we have learned in the CFS/TRACS project, the critical data necessary to manage these programs is not always available in automated systems. When it is

not, it may be necessary to manually collect this data and load it into the new systems. This effort is time-consuming and costly and impacts the ability of the staff to do its normal work. Where data is available in automated systems, this data must be evaluated to ensure its accuracy. If data is maintained in more than one system, it must be reconciled to ensure that the correct data is loaded into the new system. Data accuracy is critical to the management of the programs and accuracy of the information provided to other entities, such as Congress, the Office of Management and Budget, etc.

Given HUD's limited resources, competing priorities also impact the timely implementation of integrated systems. For example, the successful implementation of a new program requires the commitment of financial and human resources. Many times the Department does not receive the necessary administrative expenses to support the implementation of these new programs. The resources are then taken from existing resources, which may impact the implementation of the systems integration plan.

Finally, HUD's programs are extremely complicated and have gone through many iterations over the years. As a result, the systems must be developed to support the many variations of the same basic program. This increases the time necessary to document the business requirements of the programs and the complexity of the systems to support the programs.

What are the specific duties of the HUD Task Force on Systems Integration?

The Task Force on Systems Integration consists of a senior level Steering Committee (chaired by Deputy Secretary Duvernay) to provide policy direction on systems integration, oversee the specific projects to assure that they are completed successfully, and assure the participation and support of key officials in the resolution of financial systems deficiencies. In addition, a Systems Planning Working Group is being organized to develop the plans to integrate the Department's remaining financial systems.

Q.4. COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982. Mr. Secretary, the Federal Managers' Financial Integrity Act of 1982 requires agencies to establish and maintain reliable internal control and financial management systems. HUD has been unable to report compliance with this Act since it established its own Management Control Program in 1983. I also understand that HUD is the only Federal cabinet-level agency that has yet to report compliance with this Act. When do you expect that HUD will be able to report compliance with this Act?

A.4. Since 1989, HUD had consistently and accurately reported in the "Report on Compliance with the Federal Managers' Financial Integrity Act," that the Department is not in compliance with the Act. According to the Office of Management and Budget's "1993 Financial Management Status Report and Government-Wide 5-year Financial Management Plan," dated April 9, 1993, HUD is not the only agency that has failed to comply with the Act. The Departments of Agriculture and Education reported noncompliance with both Sections 2 and 4 of the Act. Further, some agencies reported "qualified compliance" (State Department) or compliance "with the exception of the material weaknesses identified in the report"

(Commerce). OMB notes that they "have reservations about the reliability of a number of agency reports."

HUD plans to be able to report compliance with Section 2 in 1995 and Section 4 in the 1997-1998 timeframe, with the scheduled implementation of the OMB-approved financial systems integration plan.

Q.5. SPENDOUT RATES. Mr. Secretary, a number of HUD programs, including public housing modernization and the HOME Program, have a substantial backlog of unspent budget authority. What steps is the Department taking to ensure that funding for programs is spent in a timely manner?

A.5. Following are detailed descriptions of steps being taken by the Department to ensure that HOME and Modernization funds will be spent in a timely manner.

HOME

HUD is anticipating acceleration of HOME outlays due to program simplification measures which have been or will shortly be implemented; efforts to increase understanding of the program and how it can be used; and substantial progress by Participating Jurisdictions (PJs) in developing State and local HOME programs.

Program Simplification

The program is now more workable based on significant changes which are being effected based on enactment of the Housing and Community Development Act of 1992 (effective October 28, 1992). Several of these changes were immediately effective. The Department is implementing remaining changes through a proposed rule published on April 27, 1993, with a target publication date for effect of July. An interim rule, to be published in June, will codify the remaining statutory provisions of the HCD Act which were immediately effective (some were included in the December 22 interim rule), as well as to make other simplifications in response to public comment already received. Changes have been made to the Cash and Management Information System which make it easier for PJs to access HOME funds. Finally, a task force is working to identify provisions in HOME and CDBG which, if conformed, would make it easier for recipients to administer both programs.

Significant HCD Act Changes Affecting Outlays

Examples of significant HCD Act changes which will result in accelerated outlays include:

- A provision for up to 10 percent of the HOME funds to be used for administrative costs. This will allow PJs to do tenant assistance with HOME money, which they previously were unwilling to do because of nonreimbursable administrative expense.
- A provision for up to 5 percent of the HOME funds to be used for operating costs of Community Housing Development Organizations (CHDOs).
- A correction of a HOME provision that previously had made HOME unworkable with tax credits.

- The elimination of restrictions on new construction. Any jurisdiction can now do new construction without meeting any other tests.
- The addition of transitional housing as an eligible activity.
- Increasing the per unit subsidy limits to the full section 221(d)(3) limit (as opposed to the previous limit of 67 percent of the 221(d)(3) limit), and not allowing the subsidy to be reduced if tax credits are used.
- Correction of resale restrictions for first-time homebuyers so that the provision is now workable.

Regulatory Changes

- Regulatory changes in the proposed rule deal primarily with matching requirements (which were also changed in the HCD Act of 1992). With HUD publishing these quickly, PJs will be able to move forward more rapidly, since the uncertainty surrounding how HUD would define these new categories of eligible match will be removed.
- Regulatory requirements in the interim rule will address issues on which the Department has received public comment indicating a need for simplification (e.g., removing the requirement to have a construction commitment at the time of land acquisition, allowing PJs to use mechanisms other than deed restrictions to ensure long-term affordability, allowing high cost jurisdictions to use properties in their homeownership programs valued at 95 percent of median purchase price rather than limited to the Sec. 203(b) cap, providing greater flexibility in requirements for SROs). Accelerating publication of this rule will allow PJs to move forward more rapidly by reducing the administrative and legal burdens of some of the current requirements.

Changes to Cash and Management Information System (C/MI)

Several changes to implement the HCD Act amendments have been made, which will accelerate outlays, including:

- Changes to permit drawdown of administrative funds, effective February 17. (PJs could incur costs after October 28, 1992, but had no ability to draw down the funds for this purpose until the C/MI was changed.)
- Changes to the tenant based rental assistance form and programming to allow up to 99 tenants to be included in one project. (This replaced the requirement that each tenant be treated as a separate project, requiring individual setups in the C/MI.) This change was implemented March 30.
- Changes to permit drawdown of CHDO operating expense funds and funds for capacity building, implemented March 15.
- Changes to allow single setup of multiple homeowner projects such as co-op projects and mobile home parks. (Previously each unit was treated as a single project.) This change was implemented on April 30, and we are aware of some jurisdictions which have projects ready to go.
- Changes to permit States to sub-assign administrative funds and CHDO operating expense money to State recipients. These changes will be implemented by July 1, 1993.

- A provision of management reports, as of April 30, to our Field Offices so they can monitor PJ progress more closely and can provide information to the PJs.

HOME/CDBG Task Force

A task force was formed to identify differences in definitions and requirements which are impediments to program participants that are managing both programs or attempting to combine funding in projects. The task force developed recommendations for standardization and simplification, which will ease the administrative burden for our program participants.

Improved Understanding of the Program

This involves both public information and technical assistance efforts. I have already issued one newsletter to housing providers, featuring HOME, and have discussed it in many forums. A strategy to provide concentrated inside technical assistance to the largest PJs is being developed. This will assist them in developing programs and streamlining their own processes to speed program implementation. Further, a number of model programs are either completed or in the final stages of completion, which will help PJs design programs in conformance with HOME requirements.

Progress by Participating Jurisdictions in Designing Their HOME Programs

As is true with any new program, it has taken time for the PJs to develop their own programs. Despite the complexities of HOME, it offers great flexibility to PJs in selecting the types of activities they wish to undertake, whether it be new construction of rental housing, tenant assistance, or first-time homebuyer assistance, as well as many other eligible activities. Many PJs have published their requests for proposals, have made project selections, and are in the process of executing grant agreements. The Department expects to see an increase of commitments and outlays now that the above changes have been made.

Modernization

The Department, through the Office of Public and Indian Housing, has instituted specific procedures to address the backlog of unspent Modernization budget authority. An analysis of the pipeline was conducted which focused on fiscal year 1990 and prior year funding. It was determined that 96 Housing Authorities (HAs) account for 80 percent of the unobligated funds approved in fiscal year 1990 and prior years. The Department has received target dates for the obligation of these funds. Steps being taken to increase the obligations and expenditures by HAs include:

- HUD Regional Offices will provide technical assistance to the 96 HAs, closely monitor their progress, and provide special reports on a regular basis;
- The Regional Offices will provide a specific detailed action plan, with dates for interim steps toward full obligation of all funds or for recapture of unobligated funds;

- An Assistant Secretary level task force will be formed to meet with the more problematic HAs for the purpose of providing special technical assistance and monitoring progress; and
- Implementation of programmatic changes recommended by the Modernization Working Group to simplify and expedite program implementation. In addition, HUD has instituted the following "acceleration procedures" to expedite the approval of the fiscal year 1993 Comprehensive Grant Program (CGP) funding:
- Issued a Notice to allow and encourage Housing Authorities to make their FY 1993 annual submissions early;
- Issued a Notice to provide for an expedited 14-day (rather than the normal 75-day) review of Housing Authority (HA) Annual Statements in order to make it possible for HAs to have access to fiscal year 1993 CGP funds two to five months sooner; and
- Assigned fiscal year 1993 CGP funds covering the presumptive estimates to the HUD Regional Offices so that the funds will be available for fund reservation as soon as the HAs' annual submissions are approved.

Additional measures to expedite funding, some of which require regulatory changes, are also planned.

Q.6. REGIONAL AND FIELD OFFICES. Mr. Secretary, do you have any plans to reorganize the responsibilities of HUD's Regional offices and Field offices? How would you "Reinvent HUD" for these offices?

A.6. The Reinventing HUD initiative is looking at all of the factors that affect HUD's capacity, including organization. Two years from now, I expect that there will be a large number of people at HUD who will not be doing what they are doing today, including those who work in the Field. In our Reinventing HUD workshops, we heard from staff throughout the Department that many efficiencies could be implemented, including organizational efficiencies. The Reinventing HUD task forces are looking into all of these suggestions. The National Performance Review which Vice President Gore is heading also is looking at organizational issues, among others; and I anticipate that the NAPA study which commenced recently will provide additional suggestions about organizational improvements. At the end of all of these efforts—about 6–9 months from now—we will have a reinvention plan which, I expect, will include some organizational changes.

QUESTIONS FOR HENRY CISNEROS FROM SENATOR PAUL S. SARBANES

Q.1. Can you make the case to the Congress that your agency is capable of delivering on the vision that you are outlining for our communities? In the short-term, is there a conflict between restoring HUD's credibility and meeting the housing needs of our communities?

A.1. I think what you're asking is "will we be able to provide the day-to-day services while we fix HUD?" The answer is yes. We have many initiatives underway to address the management problems that are the root cause of our credibility problem. I have established several task forces and committees to deal with the management issues at HUD, such as training, management controls, and strategic planning. While these are underway, we will of

course continue to provide the services and assistance communities expect and require. But in addition to looking at our internal management issues, we are also looking into improving the way in which we deliver services to our communities. We are reviewing our internal policy and legislative mandates for impediments to the efficient delivery of services. Policies that inhibit services will be changed, and remedies to legislative barriers will be proposed to Congress. We are also conducting numerous "Reinvention Laboratories" in different areas to evaluate new and more effective ways to do business.

Q.2. What are the criteria Congress should use to judge you and your progress on management issues? What do you hope to have accomplished by the next oversight hearing in six months? one year?

A.2. One of the root causes of HUD's problems has been a lack of strategic, long-term planning. One of my first priorities has been to develop solid, well-considered plans to chart a course for the entire Department. That plan will serve as the basis for requesting and allocating resources. Based on the plan, we will develop results-oriented performance measures which we can use to evaluate program and organizational progress and effectiveness. Planning is key to our success in reforming HUD—both its internal management and its external program delivery.

Presently, we have many planning efforts in progress. The Reinventing HUD initiative is looking at a wide spectrum of management and policy issues, identifying impediments to progress and developing alternatives for breaking down those barriers and improving operations. Reinventing HUD is not the only planning initiative underway. We have a number of task forces in progress, looking at specific issues and problems and developing plans to correct them. I already have told you about the Systems Integration Task Force, the Management Controls Committee, and the Training Task Force I have established, and there are others focused on program issues. I expect that I will be able to report more specifics about our plans within 6–9 months. Within that same time year, we will have established and begun monitoring performance measures which will help us target problems and report successes.

As I testified, it has taken many years for HUD to get in the mess it's in. It will take years to get out. But we will make progress. And—most important—HUD will have a long-term strategic plan to guide its emersion from the problems of the past.

Q.3. Why is HUD the only Cabinet level agency to never report compliance with the Federal Managers' Financial Management Act?

A.3. Since 1989, HUD has consistently and accurately reported in the "Report on Compliance with the Federal Managers' Financial Integrity Act," that the Department is not in compliance with the Act. According to the Office of Management and Budget's "1993 Financial Management Status Report and Government-Wide 5-year Financial Management Plan," dated April 9, 1993, HUD is not the only agency that has failed to comply with the Act. The Departments of Agriculture and Education reported noncompliance with both Sections 2 and 4 of the Act. Further, some agencies reported

“qualified compliance” (State Department) or compliance “with the exception of the material weaknesses identified in the report” (Commerce). OMB notes that they “have reservations about the reliability of a number of agency reports.”

HUD plans to be able to report compliance with Section 2 in 1995 and Section 4 in the 1997–1998 timeframe, with the scheduled implementation of the OMB-approved financial systems integration plan.

Q.4. In February, you told this Committee that you planned to expedite the spending of the \$3.2 billion newly appropriated and \$6 billion in unexpended modernization money that is “in the pipeline.” What has been done so far to accomplish this goal? Are additional measures contemplated? Will the benefits of quicker spending in this program be made permanent? How much additional modernization money is being spent as a result of these reforms?

A.4. FY 1993 Funding

HUD has instituted the following “acceleration procedures” to expedite the approval of fiscal year 1993 Comprehensive Grant Program (CGP) funding:

- Issued a Notice to allow and encourage Housing Authorities (HAs) to make their fiscal year 1993 annual submissions early;
- Issued a Notice to provide for an expedited 14-day (rather than the normal 75-day) review of HA Annual Statements in order to make it possible for HAs to have access to fiscal year 1993 CGP funds 2 to 5 months sooner; and
- Assigned fiscal year 1993 Comprehensive Grants (CGP) funds covering the presumptive estimates to the HUD Regional Offices so that the funds will be available for fund reservation as soon as the HAs’ annual submissions are approved.

Additional measures to expedite funding, some of which require regulatory changes, are planned. All of the benefits of accelerated spending in the program will be permanent changes.

Pipeline Funding

The following steps have been taken to increase the obligation and expenditure of “pipeline” funding:

An analysis of the pipeline was conducted which focused on fiscal year 1990 and prior year funding. It was determined that 96 HAs account for 80 percent of the unobligated funds approved in fiscal year 1990 and prior years. The Department has received target dates for the obligation of these funds. Steps being taken to increase the obligations and expenditures by HAs include:

- HUD Regional Offices will provide technical assistance to the 96 HAs, monitor closely their progress, and provide special reports on a regular basis;
- The Regional Offices will provide a specific detailed action plan, with dates for interim steps toward full obligation of all funds or for recapture of unobligated funds;
- An Assistant Secretary level task force will be formed to meet with the more problematic HAs for the purpose of providing special technical assistance and monitoring progress; and

- Implementation of programmatic changes recommended by the Modernization Working Group to simplify and expedite program implementation.

It is too early to determine the progress achieved with respect to the backlog since the steps have only recently been implemented.

Q.5. What actions have been taken to accelerate HOME spending? How much progress has been made on these efforts?

A.5. HUD is anticipating acceleration of HOME outlays due to program simplification measures which have been or will shortly be implemented; efforts to increase understanding of the program and how it can be used; and substantial progress by Participating Jurisdictions (PJs) in developing State and local HOME programs.

Program Simplification

The program is now more workable based on significant changes which are being effected based on enactment of the Housing and Community Development Act of 1992 (effective October 28, 1992). Several of these changes were immediately effective. The Department is implementing remaining changes through a proposed rule published on April 27, 1993, with a target publication date for effect in July. An interim rule, to be published in June, will codify the remaining statutory provisions of the HCD Act which were immediately effective (some were included in the December 22 interim rule), as well as to make other simplifications in response to public comment already received. Changes have been made to the Cash and Management Information System which make it easier for PJs to access HOME funds. Finally, a task force is working to identify provisions in HOME and CDBG which, if conformed, would make it easier for recipients to administer both programs.

Significant HCD Act Changes Affecting Outlays

Examples of significant HCD Act changes which will result in accelerated outlays include:

- A provision for up to 10 percent of the HOME funds to be used for administrative costs. This will allow PJs to do tenant assistance with HOME money, which they previously were unwilling to do because of nonreimbursable administrative expenses.
- A provision for up to 5 percent of the HOME funds to be used for operating costs of Community Housing Development Organizations (CHDOs).
- A correction of a HOME provision that previously had made HOME unworkable with tax credits.
- The elimination of restrictions on new construction. Any jurisdiction can now do new construction without meeting any other tests.
- The addition of transitional housing as an eligible activity.
- Increasing the per unit subsidy limits to the full section 221(d)(3) limit (as opposed to the previous limit of 67 percent of the 221(d)(3) limit), and not allowing the subsidy to be reduced if tax credits are used.
- The correction of resale restrictions for first-time homebuyers so that the provision is now workable.

Regulatory Changes

- Regulatory changes in the proposed rule deal primarily with matching requirements (which were also changed in the HCD Act of 1992). With HUD publishing these quickly, PJs will be able to move forward more rapidly, since the uncertainty surrounding how HUD would define these new categories of eligible match will be removed.
- Regulatory requirements in the interim rule will address issues on which the Department has received public comment indicating a need for simplification (e.g., removing the requirement to have a construction commitment at the time of land acquisition, allowing PJs to use mechanisms other than deed restrictions to ensure long-term affordability, allowing high cost jurisdictions to use properties in their homeownership programs valued at 95 percent of median purchase price rather than limited to the Sec. 203(b) cap, providing greater flexibility in requirements for SROs). Accelerating publication of this rule will allow PJs to move forward more rapidly by reducing the administrative and legal burdens of some of the current requirements.

Changes to Cash and Management Information System (C/MI)

Several changes to implement the HCD Act amendments have been made, which will accelerate outlays, including:

- Changes to permit drawdown of administrative funds, effective February 17. (PJs could incur costs after October 28, 1992, but had no ability to draw down the funds for this purpose until the C/MI was changed.)
- Changes to the tenant based rental assistance form and programming to allow up to 99 tenants to be included in one project. (This replaced the requirement that each tenant be treated as a separate project, requiring individual setups in the C/MI). This change was implemented March 30.
- Changes to permit drawdown of CHDO operating expense funds and funds for capacity building, implemented March 15.
- Changes to allow single setup of multiple homeowner projects such as co-op projects and mobile home parks. (Previously each unit was treated as a single project.) This change was implemented on April 30, and we are aware of some jurisdictions which have projects ready to go.
- Changes to permit States to sub-assign administrative funds and CHDO operating expense money to State recipients. These changes will be implemented by July 1, 1993.
- Provision of management reports, as of April 30, to our Field Offices so they can monitor PJ progress more closely and can provide information to the PJs.

HOME/CDBG Task Force

A task force was formed to identify differences in definitions and requirements which are impediments to program participants that are managing both programs or attempting to combine funding in projects. The task force developed recommendations for standardization and simplification, which will ease the administrative burden for our program participants.

Improved Understanding of the Program

This involves both public information and technical assistance efforts. I already issued one newsletter to housing providers, featuring HOME, and have discussed it in many forums. A strategy to provide concentrated inside technical assistance to the largest PJs is being developed. This will assist them in developing programs and streamlining their own processes to speed program implementation. Further, a number of model programs are either completed or in the final stages of completion, which will help PJs design programs in conformance with HOME requirements.

Progress by Participating Jurisdictions in Designing Their HOME Programs

As is true with any new program, it has taken time for the PJs to develop their own programs. Despite the complexities of HOME, it offers great flexibility to PJs in selecting the types of activities they wish to undertake, whether it be new construction of rental housing, tenant assistance, or first-time homebuyer assistance, as well as many other eligible activities. Many PJs have published their requests for proposals, have made project selections, and are in the process of executing grant agreements. The Department expects to see an increase in commitments and outlays now that the above changes have been made.

Q.6. You have highlighted problems with the disposition of the multifamily inventory, and the statutory requirement that HUD attach Section 8 rental subsidies to property disposition units. If there were a statutory change, do you have adequate staff to carry the program out? If we accelerate disposition, will staff needed for other activities like loan management, servicing and monitoring, be deployed for disposition?

A.6. First, it must be realized that HUD does not propose that it can deal with this problem in one year or two. It needs a sustained effort and focus, both in the disposition and in the loan management areas. This will spread workload out over several years and, as property leaves inventory, it will allow limited staff to be devoted to prevention activities.

Second, we recognize that HUD cannot continue to do business as in the past. HUD will shortly be entering into a demonstration with State Housing Finance Authorities to assist in multifamily disposition activities. Further partnerships in that area are possible, both in the property disposition area, and in other activities which affect HUD's Field Offices, such as preservation of low income housing. Such cooperative arrangements benefit both parties and the communities in which the potentially distressed housing is located. It helps HUD by substituting State staff and expertise for the limited staff at HUD. We are also working with the Resolution Trust Corporation to see if there are areas where they can assist us. Other initiatives are planned. Just as this problem is many faceted, including areas you mentioned, the solutions we are discussing are many faceted, drawing on State, other Federal, and private sector resources to augment the resources here at HUD.

As you mentioned, HUD does have legislative changes in mind. These are currently under discussion with the Office of Manage-

ment and Budget. Additional parts of the legislation are being drafted this week. Both OMB's approach and HUD's seek to accelerate the sale of owned property and the foreclosure of hopelessly delinquent HUD-held multifamily mortgages. This acceleration of activity will cause increased staff demands, and that is why HUD is looking into new partnerships with State agencies, for example, to add to the HUD staff in this area. In the longer run, as inventory of owned property decreases and delinquent loans are resolved through foreclosure or restructuring, staff working on disposition activities can concentrate on preventing and solving problems on FHA-insured loans before they reach the crisis state.

Q.7. You mentioned that you will seek to shift money to fund new, innovative programs. I am concerned that you chose the HOME program as the source of these funds. Stable funding levels are necessary for this new program if communities are to plan ahead for multi-year housing developments. Have you identified other "pipelines?" Do you have plans to accelerate or reprogram funds from older, terminated programs such as UDAG?

A.7. The Department will consider all options, including the Urban Development Action Grant (UDAG) program, for funding any possible new initiatives as well as existing programs.

A number of UDAG projects have encountered serious delays and have not been able to be implemented. During the past several years, HUD has been giving the recipient cities more time to either try to carry out the originally approved project or substitute other activities that meet the requirements for an amended UDAG Grant. However, since significant amounts of Federal funds remain tied up (obligated but not disbursed) with these grants, the Department is reviewing its options to determine if many of these old grants should be terminated.

Q.8. The CDBG program still spends only about 4 percent in the first year they are made available, after nearly twenty years of operation. No money at all is spent in the year appropriations are made available for long-established HUD programs like public housing modernization, public housing development, and Section 202 housing programs. In fact, it takes more than four years to expend all of the funds for these three programs. To what extent do you believe these delays are legitimate? What authority does HUD currently have to crack down on communities that have notoriously bad track records on moving money? Has HUD ever used it? What more can you do?

A.8. There are a number of factors affecting the capacity of HUD program recipients to spend funds rapidly. Following are explanations applicable to the CDBG, Section 202, and Public Housing Development programs.

CDBG

With respect to the CDBG program the Department allows state and local governments flexibility in requesting funds so as to conform with their own fiscal years. Most entitled cities and counties ask for funding by July 1, the final quarter of the Federal fiscal year. Most state governments are awarded their funds in March or April. However, their competitive grant distribution processes to

small cities precludes significant drawdowns from the U.S. Treasury until the subsequent fiscal year. Over the past five years, CDBG expenditures have kept pace with rising appropriation levels, approximating a 97 percent drawdown rate during that period of time.

Current CDBG regulations provide for sanctioning slow spending entitlement cities and counties. Funding sanctions have been applied in some instances and a number of grantees have had grant conditions imposed requiring accelerated expenditures. We are developing standards to be imposed upon states for timely distribution and expenditure. We plan to place some emphasis this year on the accelerated use of prior years' appropriations by imposing tighter standards in fund usage.

Section 202

The timing of disbursements under the Section 202 program is subject to programmatic, processing, and staffing constraints. However, the fact that housing development is a time-consuming process accounts for the relatively long 202 disbursement timetable.

Once funds are reserved for a Section 202 project, the sponsor has up to 18 months to start construction. Upon construction start, some of the development costs are drawn down. The sponsor continues to draw down funds during construction until the project is completed. Various circumstances could delay construction (and, thereby, delay disbursements) such as site and zoning issues which have to be resolved at the local level. HUD Field staff review applications for potential zoning problems before making an award, but some issues are unforeseeable. HUD currently exercises all the authority it has to expedite 202 project development by withholding about 10 percent of every project's initial reservation until construction completion, or final closing.

Public Housing Development

Communities that have been awarded Public Housing grant funds for the development of new units are allowed a 30-month period in order to complete the preconstruction phase and move the development to the start of construction. During this period, the Department is prohibited by statute (Section 5(k) of the United States Housing Act of 1937) from initiating any action to terminate project reservations. Outlays of funds are indeed very slow during the first two years, increasing to a significant level in the third year when the actual construction phase typically begins. The statute referenced above also provides exclusions from the 30-month period for any delays caused by (1) the Department (HUD); (2) environmental review requirements; (3) legal actions; and (4) factors beyond the control of the public housing agency.

For many communities the entire public housing development process is a complex undertaking, subject to local hearing and political debate, and even contested in court by those who live near a selected site. Given this factor and the provisions of the statute, the development pipeline includes a significant number of projects that have been unable to reach construction start well beyond the 30-month period provided by the statute.

Two initiatives by the Department that are intended to address the situation you describe in your question, by removing non-viable projects from the development pipeline, are as follows: (1) a directive will be issued shortly to the Regional Administrators from the Secretary stating that action must be taken to either move viable projects through the pipeline or terminate non-viable projects, and (2) the 1994 HUD budget submission to the Congress includes proposed legislation that would authorize the recapture and rescission of 15 percent of pre-1992 reservations that have not been obligated by October 1, 1994 (oldest first).

Q.9. Some have suggested that hospitals insured by FHA could be the next debacle to afflict HUD. Do you view the hospital program as a particular management risk? What approach will you take toward dealing with the risks inherent in this program?

A.9. In the Department's Fiscal Year 1991 "Report on Compliance with the Federal Managers' Financial Integrity Act" to the President and Congress, HUD identified the Section 242 Hospital Program as an inherently high risk program. HUD began to focus on Section 242 internal controls in 1989 when it identified a Section 242 material weakness relating to staffing and monitoring issues. However, after completing corrective actions on the material weakness, HUD determined that inherent risks remain in the areas of loan size, geographic concentration and organizational structure (i.e., joint administration of the program by HUD and HHS). Specifically, the program is inherently risky because loan amounts are not capped (there are individual hospital loans which exceed \$300 million), geographic diversity does not exist in the portfolio (71 percent of the total loan portfolio is in New York State), and program responsibility is split between HHS (program operation) and HUD (insurance).

HUD currently has approximately \$5 billion of hospital mortgage insurance in force. To date, program income from insurance premiums has far exceeded amounts paid out in claims. However, as the General Accounting Office pointed out in its 1988 report on the program, if even a few hospitals with large mortgages were to default, the Section 242 program could impose a serious burden on the insurance fund.

To offset this inherent risk, HUD has: (1) hired a hospital insurance advisor to provide oversight of HHS underwriting; (2) initiated feasibility reviews of new projects by independent consultants prior to issuing firm commitments; (3) established the Hospital Mortgage Insurance Staff as an organizational entity reporting directly to the Assistant Secretary for Housing-Federal Housing Commissioner; (4) improved hospital monitoring, staff communication, and coordination with HHS; and (5) initiated an Expedited Processing Pilot Program for BBB or better-rated hospitals applying for insured loans of \$10 million or less.

This administration is actively considering the following initiatives to further strengthen and improve the program:

- Streamlining the organizational structure and delegations of authority for the Section 242 Program to make it more efficient and more appealing to potential clients.

- Encouraging portfolio diversity by actively marketing the program in areas outside the northeast and implementing a mortgage insurance program for refinancing existing non-insured hospitals, pursuant to Section 223(f)(4) of the National Housing Act.
- Strengthening the internal controls related to the management and oversight of hospital construction projects, as recommended in Coopers & Lybrand's 1992 study.
- Improving data collection, reporting capabilities and procedures for monitoring the operational and financial performance of hospitals with insured and HUD-held mortgages.
- Revising the Regulatory Agreement and Covenants used in the hospital program to eliminate ambiguities, enhance their enforceability, and modify restrictions that discourage program participation.

HUD currently has a \$5 billion portfolio of hospital insurance in force subject to continued claims. Some of these claims could exceed \$100 million. HUD has taken several actions to reduce its vulnerability which include hiring a hospital insurance advisor to provide oversight of HHS underwriting, review of new projects by an independent consultant prior to issuing commitments, and improved staff review and coordination with HHS. However, the Department still considers Section 242 an inherently high risk program for the near future.

Q.10. According to HUD's FY 1993 Congressional Justifications, 240 field staff were allocated to administering the Section 8 program last year, to oversee roughly \$15 billion of spending. By comparison, the Department devoted 187 staff resources to carry out the new HOPE program which was expected to spend only \$6.6 million last year, but in the end did not spend anything. Is this consistent with your view of spending priorities? Will you redeploy the HOPE staff?

A.10. The \$15 billion mentioned above for FY 1993 includes outlays for all assisted units including Lower Income Housing Assistance Payments (Section 8), Home Owner Assistance (Section 235), Rent Supplement, Rental Housing Assistance (Section 236), Public Housing, and College Housing, while the 240 Field staff reflect only those associated with the PHA-administered Vouchers, Certificates, and Moderate Rehabilitation programs. However, several hundred additional FTE, that are not discretely identified in the Budget, were expended on the Section 8 program in 1992.

Dollars are not always indicative of the effort that is required to administer a program. The Section 8 and the HOPE programs generate different demands on the Field staff. Section 8 is an established program that is not as staff-intensive, by comparison, with the HOPE program which is new. At this stage, HOPE involves a great deal of outreach and technical assistance to numerous unsophisticated sponsors.

Q.11. During the past several years, as staffing levels have been cut, the Department has increasingly relied upon outside contractors to implement programs, underwrite, and process loans. How much of HUD activity is contracted out? How efficient is the use of contractors to conduct HUD activities?

The GAO informs us that, while Ginnie Mae's in-house staff currently totals 70, the total number of outside contractors working for Ginnie Mae amounts to 566 persons. Last year, GAO conducted a study demonstrating the increased risk confronting Ginnie Mae resulting from so many outside contractors. How can Ginnie Mae ensure accountability with an agency that is predominately composed of outside contractors? Given Ginnie Mae's staffing situation, does the proposal in the President's Budget to extend Ginnie Mae's guarantee coverage to include Real Estate Mortgage Investment Conduits (REMICs) expose the Government to any additional risks? Could the costs of running Ginnie Mae be reduced, and therefore savings incurred, as a result of shifting Ginnie Mae's outside work to in-house personnel?

A.11. A 1987 analysis of contracting estimated that one-third of HUD's work was performed by others. This number certainly hasn't gotten any smaller. We are now participating in OMB Director Panetta's review of Executive Branch contracting activities. Two of the specific questions we're addressing at HUD are how much of our work is contracted out and whether contracting is cost-efficient. This review is currently underway, and we'll be reporting the results to OMB June 30, 1993.

GNMA ensures accountability by:

- Having a small staff of professionals that directs and monitors contractors;
- Hiring a Compliance and Review contractor to review the GNMA contractors on site;
- The Office of Inspector General reviewing the Compliance and Review Contractor and GNMA's largest contractor during Fiscal Year 1993; and
- GNMA actively selling the servicing rights of acquired portfolios from defaulted issuers which has reduced the number of contractors and the cost of servicing.

A REMICs Program, itself, involves no material risk to GNMA. GNMA's present guarantee already covers 100 percent of both the credit risk and timely payment risk on the single class; GNMA guaranteed mortgage-backed securities will be used as collateral for the GNMA REMICs.

Regarding managing the REMICs program, GNMA has been given by the Department four additional FTE for Fiscal Year 1994. The Program will be designed to be decentralized, permitting only qualified firms to use GNMA standard and approved documents with GNMA defined procedures. GNMA will employ experienced firms to supplement GNMA professional staff to administer the program.

The extent of savings resulting from shifting GNMA's outside work to in-house personnel would depend on the kind of work to be performed. Cost savings are not likely to result if the work to be performed by in-house staff is highly irregular in volume. Contract services in such cases may be more economical. Ongoing and routine technical tasks also may be performed by contractors more economically, depending on the volume and skills required. On the other hand, managerial and professional activities are not suitable

for contracting out, and no cost savings would be likely if that occurred.

QUESTIONS FOR HENRY CISNEROS FROM SENATOR ALFONSE M. D'AMATO

Q.1. You have spoken a great deal about the transformation of HUD into an effective, lead agency for addressing America's housing and urban problems. What will your top priorities be in this process?

A.1. Over the past few months, as we have been engaged in an effort to set a framework for addressing the needs of urban America, we have identified three themes, or values, which clarify what we stand for at HUD. They are commitments to: the spirit of the community; economic lift and creating ladders of opportunity; and confronting the self-destructive behaviors that ravage our society—racism, crime, and dissolving families. To meet these commitments, we must become an agent of change. One of the objectives of our reinvention project is to transform HUD into an enabler, a force for positive change. We will strengthen the traditional role of providing a decent, affordable home in a suitable living environment for every American family. But we will also put the "urban development" back into HUD and will create working partnerships with community organizations, local leaders, private business, and governments at all levels.

Presently, my management team is defining first year priorities. Much of our focus will be on identifying and taking action to eliminate barriers that impede our ability to achieve our mission. Some of those barriers are legislative, and we will be working to address those issues.

Q.2. How do you propose to measure the success or accomplishment during the reform process?

A.2. Meeting the needs of our communities requires HUD to be able to effectively manage its resources and efficiently deliver the services required by our communities. Our success in resolving the underlying management problems is therefore the key to meeting the needs of our customers, which is why improving HUD's management systems is such a high priority. Within six to nine months, as a result of our "Reinvent HUD" effort, we will have a strategic plan in place that will drive our administration of appropriated funds and the development of future budgets. The plan will be the basis for organizing our workforce and allocating resources and for results-oriented performance measures. All 13,000 HUD staff are participating in this effort, as are academics, elected officials, industry and trade officials, advocacy groups and other community service providers. From this effort, I can envision new legislation, simplified regulations, reorganizations of HUD, increased delegation of authority to those on the "front line" of delivering services, and an increased focus on results rather than processes unrelated to outcomes. To evaluate the reforms proposed and their impact on our mission and values, we are forming Innovative Laboratories to put the new ways of doing business into practice. We are in the process of identifying these laboratories and will announce them in the coming weeks.

Q.3. The Budget requests \$100 million to remedy the management problem at HUD. What types of programs will these funds be used for and how long will it take to get your Department "up to speed?"

A.3. The 1994 Budget request indicates projected expenditures of approximately \$20 million for 1994 to integrate the Department's financial management systems. Over a five-year period this is expected to cost \$100 million. HUD is making every effort to complete the two highest priority integrated systems, the Section 8 Budgeting and Accounting System (CFS/TRACS) and the Core Accounting system over the next three years. Development of the remaining systems will be completed in the 1997-1998 timeframe.

Q.4. In this time of fiscal restraint and staff cuts how will HUD effectively implement changes made in the last two housing bills?

A.4. The financial and staffing constraints present a special challenge to HUD in carrying out its programs. Clearly, HUD cannot assume business as usual. Consequently, the Department is undergoing a process of "Reinventing HUD," which is expected to produce the key to resolving many of HUD's resource management issues. It will be the basis for organizing the workforce and allocating resources and help develop results-oriented performance measures which will enable the Department to evaluate program and organization effectiveness and individual performance. This effort is expected to identify areas for consolidation or elimination, and streamline processes.

Q.5. To what extent will change need to occur at the Regional and Field office level for reforms to be successful?

A.5. Since most of HUD's employees are in the Field offices, and that's where the bulk of our services are delivered, I can't imagine our reforms succeeding without changes in how the Field is organized and conducts business. HUD's Field organization, and specifically the lines of authority between Regional and Field staff and Headquarters staff, have been a source of concern to many who have looked at HUD from the outside.

The Reinventing HUD initiative is looking at all of the factors that affect HUD's capacity, including organization. Two years from now, I expect that there will be a large number of people at HUD who will not be doing what they are doing today, including those who work in the Field. In our Reinventing HUD workshops, we heard from staff throughout the Department that many efficiencies could be implemented; task forces are looking into all of these suggestions. The National Performance Review which Vice President Gore is heading also is looking at organizational issues, among others; and I anticipate that the NAPA study which commenced recently will provide additional suggestions about organizational improvements. At the end of all of these efforts—about 6-9 months from now—we will have a reinvention plan which, expect, will include some organizational changes.

BOSTON PUBLIC LIBRARY



3 9999 05981 987 8

ISBN 0-16-041324-9



90000



9 780160 413247